THE FREEMAN

IDEAS ON LIBERTY

Knowledge, Ignorance, and Government Schools

Vouchers: Politically Correct Money

The New Nihilism

A Walk on the Supply Side

JUNE 1995

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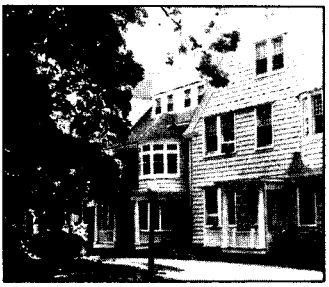

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PERSPECTIVE

Turning Libertarian: An Appreciation

The earliest remembrance I have of the people called libertarians was a day, some years ago, when I flipped on the TV and saw some sort of libertarian convention. It was being held in Hartford, I believe, and was televised, probably to the horror of the delegates, by PBS. But to a young boy like me the libertarians might as well have been on Mars. They shared in my mind the same position as the communists: heathens caught up in some soul-threatening enthusiasm. After all, my Catholic parents called themselves neither communists nor libertarians.

But, over the course of my life, I, like many conservatives, such as William F. Buckley Jr. and George Will, have tasted the worldly enthusiasms, and find myself undergoing a metamorphosis which leads me each day to identify myself more and more as a "libertarian."

Why does this happen to so many traditional conservatives? Where once I stood at my mother's knee in our warm and cozy kitchen, and listened as she told me about her hope for a pro-family tax credit, I now rage against the wind for a flat tax. Once I hoped the Supreme Court would allow prayer in schools, now I pray for school choice. Once I worried about the ERA, now I worry about the EPA, FDA, HHS, and the IRS.

Is it simply cynicism, a recognition of the pervasive "intrigue" in government? It's true that as we grow older, and learn how politics works, we realize that politicians are not only people, but they are often small-minded people, of small ideas and imagination. This is true of local politicians, and all national politicians start local.

But no matter how much of this we see, corruption in government is something which merely shakes us from a deeper mythology about our world, namely our tendency to slough off our personal responsibility, and to invest life and moral qualities into things larger than ourselves. Libertarianism, it seems to me, has always been at its best an attack on this larger sort of

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thinking. In many ways the libertarian movement, by no means a monolith, has brought a certain "dialectical" quality to American political philosophy, much the way the pre-Socratics challenged Hellenic mythology. Libertarianism, like other good intellectual movements, is about questioning assumed premises. And the premises in need of questioning today are those of the all-knowing expert-laden government.

A great period of questioning occurred in my life when I studied philosophy at St. John's University in New York. There I took a class in political philosophy with a lively, iconoclastic professor by the name of Douglas Rasmussen, who was something of an authority on Ayn Rand, and who flatly announced to us that he would teach the class from a libertarian point of view. "So this is what a libertarian looks like up close," I thought.

He used a book called *The Libertarian Reader*, by Tibor Machan, which to this day is one of those books that, when I open it, I relive the time in which I first read it. (I'm sure you all have books like that.) We began the class by analyzing the political theory of John Rawls. If there is ever a mythology about the state this is it. Rawls is, perhaps other than Marx, the archetypal mythologizer of the collective. Under the withering criticism of Rasmussen, with a little help from Robert Nozick, I felt a paradigm being shattered. It was a paradigm of the world as a collection of forces beyond my control. (I had a little help from Aristotle's virtue theory and Augustine's criticisms of determinism as well, I might add.) But as I reflect on this time in my life, and as I have seen years later as a college professor myself, the young often enter adulthood blithely unaware of the mechanisms of their own free will, the power they have over their character and destiny. Yet, they are stuffed full of enthusiasms about how they must, must, change the world, a mantra which begins at the high school graduation. The more I reflect on the state of mind with which we begin adulthood, the more I call myself a libertarian.

My library is now well supplied with books by Hayek, Mises, Rothbard, and yes, Ayn Rand. Many have yet to be read, but are on the list. As we all know, a library is a reflection of what its owner aspires to, not what he has accomplished. Yet I believe I have already assented to the core of libertarianism, the remainder is the fleshing out. The libertarian knows that the world makes sense, that it will work for you, if you have but the mind and the will for it. Otherwise, it is all a confusing series of transfer payments.

—MATTHEW CAROLAN
Executive Editor, *National Review*

Who Is a Libertarian?

- A *libertarian* believes that the government should protect all persons equally against external and internal aggression, but should otherwise generally leave people alone to work out their own problems and aspirations.
- A *libertarian* respects the right of every person to use and enjoy his honestly acquired property—to trade it, to sell it, or even to give it away—for he knows that human liberty cannot long endure when that fundamental right is rejected or even seriously impaired.
- A *libertarian* believes that the daily needs of the people can best be satisfied through the voluntary processes of a free and competitive market. And he holds the strong belief that free persons, using their own honestly acquired money, are in the best possible position to understand and aid their fellow men who are in need of help.
- A *libertarian* favors a strictly limited form of government with many checks and balances—and divisions of authority—to foil the abuses of the fearful power of government.
- A *libertarian* has much faith in himself and other free persons to find maximum happiness and prosperity in a society wherein no person has the authority to force any other peaceful person to conform to his viewpoints or desires in any manner. His way of life is based on respect for himself and for all others.

—DEAN RUSSELL
Ideas on Liberty (FEE), May 1955

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THE FREEMAN
IDEAS ON LIBERTY

Knowledge, Ignorance, and Government Schools

by Sheldon Richman

The president of the American Federation of Teachers, Albert Shanker, put it well: "It's time to admit that public education operates like a planned economy, a bureaucratic system in which everybody's role is spelled out in advance and there are few incentives for innovation and productivity. It's no surprise that our school system doesn't improve: It more resembles the communist economy than our own market economy."[1]

Shanker knows more than he realizes. The problem with government, or so-called public, schools is identical to that of socialism. As the Austrian school of economics teaches, socialism (because it lacks private property and prices) founders on its inability to discover crucial knowledge that is spontaneously produced and widely dispersed in society. A small group of planners simply cannot know what the market will reveal through the competitive process. The knowledge, or calculation, problem also sinks government schools. There is a certain ironic justice to the fact that government schools are plagued by systemic ignorance.

Open vs. Closed-Endedness

The Austrian-school economist Israel Kirzner has elaborated on the knowledge problem by distinguishing economic approaches that see the world as closed and open-ended. A closed universe, writes Kirzner,

> is . . . one in which relevant alternatives present themselves to decisionmakers in definitely perceived form. The decisionmaker sees himself confronted by a limited number of clearly marked out possible courses of action, each leading to a definitely perceived outcome. Once the parameters of this closed universe have been identified, once the decisionmaker's preferences among the given set of alternative possible outcomes have been recognized, the decisionmaking process becomes strictly mechanical. Given these parameters and preferences, choice is completely predictable and determined.[2]

In other words, in a closed universe, everything of relevance is known to the decisionmaker. He must merely engage in a calculation of costs and benefits to arrive at his choice.

But in an open-ended universe, things are rather different. As Kirzner tells us: "Decisionmaking in the open-ended universe occurs within a context in which key elements required for deliberate, calculative decisionmaking are totally absent. While some possible courses of action may be more or less clearly perceived, others are not seen at all. While some possible outcomes (of given courses of action) may be

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glimpsed, others are not recognized."[3] Reality, in this approach, is more like a gemstone than a flat, two-dimensional painting. There are facets not in view. But more than that, one may not even be aware that those facets exist.

Thus, Kirzner writes: "The possibility of utter surprise is central to the open-ended universe."[4] One may come upon information unexpectedly. Serendipity happens. "Such a universe," he adds, "provides ample scope for—in fact, it imperiously demands—the imagination, creativity, and prescience of the decisionmaker. . . . Successful decisionmaking, in the open-ended universe, consists rather in creatively anticipating the as yet unknown, in imaginatively filling in the missing contours of the apparently open-ended environment."[5]

One must understand that Kirzner is not talking about mere "imperfect knowledge." There is much we do not know because knowing it is not worth the cost. I am ignorant of the chief export of Burkina Faso. But I know I lack that knowledge, and, further, I know how to fill in that knowledge gap. I will do so when I believe the benefits outweigh the costs. Thus, my ignorance is known in the economics literature as "rational ignorance."

But there is another, more fundamental kind of ignorance: ignorance of which I am unaware, utter ignorance. For example . . . well, of course I can't give an example. If I could it wouldn't be utter ignorance. (Hypothetically, if I hadn't heard of Burkina Faso, I wouldn't know that I was ignorant about it.)

Obviously, the real world is of the open-ended variety. We don't know what we will learn tomorrow. We are capable of being surprised. Discovery is commonplace. It should go without saying that discovery is vital to our well-being. The enhancement of life, then, depends on our having institutions that encourage discovery. The important question is which set of institutions is more appropriate to an open-ended universe in the provision of services, such as educational services: government or the market, bureaucracy or entrepreneurship? Which way of doing things both recognizes our pervasive utter ignorance and increases the chances of discovery and utter surprise? We know from the collapse of communist economies around the world that political institutions have fared badly at the provision of goods and services. One reason for that is socialism's inability to cope with the open-ended world.

The market, on the other hand, does quite well when allowed to operate, and it does so precisely because it is not a unitary thing. The market, as Thomas Sowell has written, is "the freedom to choose among many existing or still-to-be-created possibilities."[6] As such, the market is best suited to the open-ended nature of reality. Why? Because it provides a powerful incentive for people to be open to utter surprise and discovery: the profit and loss system. When people stand to profit from their discoveries, they are more likely to locate (or create) opportunities that would otherwise be lost.[7]

Government Schools

We may now judge government schools by the criterion of ability to cope with open-endedness. The distinguishing feature of a government school system is that it is a virtual monopoly financed through the coercive mechanism of taxation. People must surrender their money to the system even if they don't use the schools or are dissatisfied with them. Although parents are legally permitted to send their children to independent schools, tax financing precludes that option for about 90 percent of families. Most people simply cannot afford tuition for independent schools after paying their school taxes. Thus, the market for independent education is artificially constricted, consisting mainly of highly affluent people. Many fewer independent schools exist than would otherwise be the case but for the existence of a tax-supported system. The variety of schools is likewise artificially constricted.

As a result, most decisions about education are made by small groups of elected or appointed government officials. Their deci-

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sions apply to everyone in their jurisdiction. The only way for most people to avoid their directives is to move from the jurisdiction, a costly alternative.

One can see that political decisionmaking is not suited to coping with an open-ended world. There's no reason to think that the small group of decisionmakers knows everything, and there is no profit and loss system pushing them to make entrepreneurial discoveries. For example, methods of teaching are selected by government school officials. By virtue of the political system, they have the power to impose those methods on everyone within their jurisdiction. There might be better methods that this small group of officials doesn't know about. Someone in the jurisdiction might even know such a method. But the system creates obstacles to his offering an innovation to parents and children. An innovative educator could try to open his own school, but as we have already noted, most taxpayers can't afford the tuition.

Alternatively, he could attempt to persuade the government school officials to adopt his methods. But he may find unreceptive ears because the officials are unfamiliar with his ideas or acceptance of them might offend entrenched interests. Even if the school officials humbly acknowledge that they do not know everything, they nevertheless claim the exclusive power to recognize whose ideas are worth carrying out and whose are not.

The bureaucrats may decide to look for new educational methods, but their system lacks the reality check of the marketplace. If parents are unhappy with new methods selected by officials, they can't take their business and money elsewhere. Dissatisfied parents could try to unseat elected officials. But, compared to consumer power in the marketplace, that is a costly, complicated, and indirect form of recourse. Besides, organized interests, such as the teachers' union, are more likely to prevail.

The upshot is that a government school system lacks the entrepreneurial element that has so powerfully lifted living standards around the world. In a free market, innovators are free to try out new ideas. But consumers are free to reject them. Competitors may simultaneously offer different services for consumers to choose among. Competing ideas clash in the arena of the market—to the benefit of consumers. To be sure, an entrepreneur may have to persuade a lender to finance a project. But lenders too are aiming to make money, which can only be done by pleasing consenting consumers. Private business people can go bankrupt, school officials cannot. There, in a nutshell, is the difference.

Contracting Out

All these considerations indicate why some of the fashionable reforms proposed for government schools miss the point. A few school districts have contracted out the management of their schools to private firms. Some hail such a measure as a cure for what's wrong with education. But it is not. Contracting out merely exchanges "public" monopoly managers for "private" monopoly managers. Consumers still cannot readily take their business elsewhere. The *ends* of the educational system are still set by the same small group of officials, who are protected from competition. The *means* are left to a private management firm that has an effective monopoly for the term of its contract.

Charter Schools

The charter school movement is similarly flawed. Under this reform, schools, public or private, may apply for special status under which they are free, to some extent, of central control by the school district and students' tuition is paid from tax revenues. The reform is a limited version of the voucher plan, under which children may attend any school, and, like the voucher plan, charters will tend to corrupt formerly independent schools. But leaving that aside, the charter plan suffers from the same defect—what F. A. Hayek called the "pretense of knowledge"—as a conventional government school system: A small group

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of officials, whose knowledge is necessarily limited, decides which schools and educational philosophies are eligible for participation and which are not. Those that are excluded are badly handicapped by the political system.

Hayek called the competitive market a "discovery procedure." As he pointed out, there are things we can know only if the market is permitted to reveal them. We don't know what we will learn tomorrow. The implications of that fact for education are enormous. Without real entrepreneurship, we are deprived of innovations that could transform our lives in remarkable ways. Without a free market in education, we really don't know what we're missing. □

1. Quoted in "Reding, Wrighting & Erithmatic," *Wall Street Journal*, October 2, 1989.
2. Israel M. Kirzner, "Foreword: Advertising in an Open-ended Universe," in Robert B. Ekelund, Jr., and David S. Saurman, *Advertising and the Market Process: A Modern Economic View* (San Francisco: Pacific Research Institute, 1988), pp. xvi–xvii.
3. *Ibid.*, p. xvii.
4. *Ibid.*
5. *Ibid.*
6. Thomas Sowell, *Knowledge and Decisions* (New York: Basic Books, 1980), p. 41. Adds Sowell, "'*The market' is no particular set of institutions*. . . . Any comparison of market processes and government processes for making a particular set of decisions is a comparison between given institutions, prescribed in advance, and an option to select or create institutions ad hoc." *Ibid.* emphasis in original.
7. Kirzner has done yeoman's work elaborating these points. See his *Competition and Entrepreneurship* (Chicago: University of Chicago Press, 1973) and *Perception, Opportunity and Profit: Studies in the Theory of Entrepreneurship* (Chicago: University of Chicago Press, 1979). See also Roy E. Cordato, *Welfare Economics and Externalities in an Open Ended Universe: A Modern Austrian Perspective* (Boston: Kluwer Academic Publishers, 1992).

History of the Voucher Idea

by Antony Flew

It is often thought—in fact it has even been said by contributors to *The Freeman*—that education vouchers were first proposed by Milton Friedman in his *Capitalism and Freedom* (University of Chicago Press, 1962). But this is not true. Milton Friedman may have been the first person to introduce and apply the label "education voucher," and he has certainly popularized such proposals both in that book and in later publications. But similar proposals were in fact made much, much earlier.

Thomas Paine and Education Allowances

What were, apparently, the very first such proposals are to be found in Chapter 5 of Part II of Thomas Paine's *Rights of Man: Being an Answer to Mr. Burke's Attack on the French Revolution*, a work first published in 1791 and dedicated to President George Washington. This chapter is entitled "Ways and Means of Improving the Condition of Europe, Interspersed with Miscellaneous Observations." These ways and means embrace several different but complementary proposals. They are all carefully costed; on the assumptions that England would be the first country in which they were adopted, and that the necessary funding could be found by cutting out a total of four million pounds of expenditure on the monarchy and on the armed forces. The first claims on this sum, which Paine estimated would consume just under three and three quarter million pounds were for the payment of pensions to the old and relief to the poor. He then contends that most of the remainder should be applied as follows:

Professor Flew resides in Reading, England.

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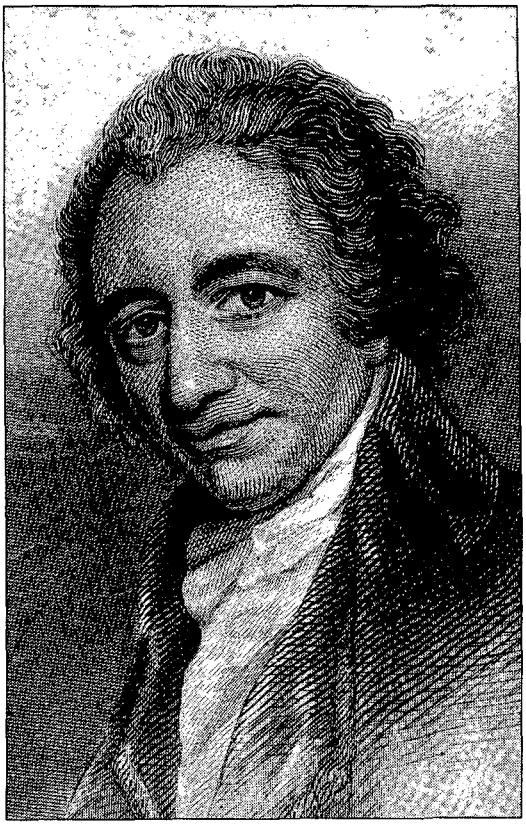
> After all the above cases are provided for, there will still be a number of families, who though not properly of the class of poor, yet find it difficult to give education to their children; and such children, under such a case, would be in a worse condition than if their parents were actually poor. . . . Suppose then four hundred thousand children to be in this condition, which is a greater number than ought to be supposed, after the provisions already made. The method will be to allow for each of these children ten shillings a year [half a pound] for the expense of schooling, for six years each, which will give them six months schooling each year and half a crown [two and half shillings] for paper and spelling books.

Paine calculates that the cost of providing these education allowances would amount to a quarter of a million pounds a year. The final task is to dispose of the comparatively modest residue of the original four million pounds in a series of miscellaneous benefactions. But before proceeding to that task Paine adds a footnote insisting that the education could and ought to be privately provided, and that its provision would benefit both the teachers and the children taught. For "There are always persons of both sexes to be found in every village, especially when growing into years, capable of such an undertaking," while "Twenty children at ten shillings each amounts to ten pounds a year for not more than six months work" and "there are often distressed clergymen's widows to whom such an income would be acceptable." So—"Whatever is given on this account to children answers two purposes, to them it is education, and to those who educate them it is a livelihood."

John Stuart Mill versus State Education

In 1859, in a much too rarely noticed and quoted passage of his classic essay *On Liberty*, John Stuart Mill repudiated not just public school monopolies but any state involvement at all in education: ". . . that the whole or any part of the education of the people should be in State hands, I go as far as anyone in deprecating. . . . A general State education is a mere contrivance for molding people to be exactly like one another. . . ." It was in this context that Mill—without, it would seem, any awareness that he had been anticipated by Thomas Paine—offered his own education voucher proposal:



Thomas Paine (1737–1809)

> Were the duty of enforcing universal education once admitted. . . . If the government would make up its mind to require for every child a good education, it might save itself the trouble of providing one. It might leave to parents to obtain the education where and how they pleased, and content itself with helping to pay the school fees of the poorer classes of children, and defraying the entire school expenses of those who have no one else to pay for them.

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Writing *On Liberty* in 1859—well before the first establishment by the Forster Act of 1870 of a state-maintained system of primary education in Britain—Mill understandably had nothing to say about the economic costs as opposed to the ideological dangers of a state monopoly in the supply of educational services. But earlier, in his 1848 *Principles of Political Economy*, he was as wholehearted as could be wished in his assault on monopoly in general. Mill argued there against socialists: "I utterly dissent from the most conspicuous and vehement part of their teaching, their declamations against competition. . . . They forget that wherever competition is not, monopoly is; and that monopoly, in all its forms, is the taxation of the industrious for the support of indolence, if not of plunder."

Indolence and plunder are strong and scarcely appropriate charges to level against the teachers and the officials in the monopolistic public school systems of either the United States or the United Kingdom. But the fact that both systems have in recent years been consuming ever more taxpayer funding with no corresponding increases, and in some directions actual declines, in education quality does reveal the motivation for the united and implacable opposition within those systems to the introduction of any measure of competition. For competition supplies customers with better value for their money. In 1861, two years after Mill wrote the passages just quoted, a witness with long and wide experience of British schools, which were still at that time all private, testified before a Royal Commission on Popular Education that:

> It is subject of wonder how people so destitute of education as labouring parents commonly are, can be such just judges as they also commonly are of the effective qualifications of a teacher. Good school buildings and the apparatus of education are found for years to be practically useless and deserted, when if a master chance to be appointed who understands his work, a few weeks suffice to make the fact known, and his school is soon filled, and perhaps found to be inadequate to the demand of the neighbourhood.

State education in Britain was first established by the Forster Act of 1870. But William Edward Forster, who gave his name to that Act of Parliament, was himself a classical Gladstonian liberal. (In the United States today the liberal media would denounce him as an extreme conservative!) Certainly the system established by that Act eventually developed into one catering for over 90 percent of the relevant age groups, and one from which parents can withdraw their children only if they are able and willing to pay twice, once through taxation and then again through school fees. But that was not how it was in the beginning, or how Forster himself ever wanted it to become. He insisted—against some (then) Conservative opposition—that poor parents unable to pay school fees for their children should be enabled to choose an independent denominational school if they so wished instead of having to use the state system. The Forster Act therefore included the following Section 25:

> The school board may, if they think fit, from time to time, for a renewable period not exceeding six months, pay the whole or any part of the school fees . . . [for] . . . any child resident in their district whose parent is in their opinion unable from poverty to pay the same; but no such payment shall be made or refused on condition of the child attending any public elementary school other than such as may be selected by the parent; and such payment shall not be deemed to be parochial relief given to such parent.

Unfortunately the embryo contained in this Section 25 was killed in infancy by the growing bureaucracy established under the Act as a whole and the foundation was laid for national compulsory education in England. □

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THE FREEMAN
IDEAS ON LIBERTY

Vouchers: Politically Correct Money

by Gary North

The standard argument in favor of school vouchers is that vouchers will restore lost parental authority over their children's education. This argument reveals a failure to understand the crucial relationship between moral authority, legal authority, and economic authority. It has persuaded a lot of parents to promote a reform that will not only not fulfill its stated goals but will actually undermine some parents' authority even further.

The debate over vouchers is a debate over authority. One of the fundamental institutional principles is this: without sanctions, there can be no authority. Authority without sanctions is merely opinion.

This leads us to the question of sanctions. There are two kinds of sanctions: positive and negative. Generically, they are known as the carrot and the stick: rewards and punishments. Through the imposition of appropriate sanctions, those in authority maintain their authority.

When we ask, "Who's in charge here?" we are seeking the locus of final institutional authority. The locus of authority is discovered in two ways: (1) identifying the source of law in a system; (2) identifying the nature of the system's sanctions. No matter who is said to be sovereign in a system, if he cannot change the law and impose the sanctions, he is not sovereign.

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A Debate Over Morality

The debate over vouchers is ultimately a debate over moral authority. This is more often admitted by proponents of vouchers than by defenders of the present system of school finance. But the proponents of vouchers have generally failed to extend their moral inquiry beyond the question of parental choice. They have not asked the far more fundamental question: What is the source of the funding, i.e., the source of the sanctions?

Whenever we seek to resolve a conflict between moral positions embodied in rival systems of authority, we should at some point examine the sanctions of the respective systems. We should ask two questions. First, do the system's sanctions violate the moral principle that the sanctions are said to defend? Second, do these sanctions violate an even more fundamental moral principle? Sanctions that are inconsistent with either principle should be abandoned.

In the continuing debate over education, the proposed institutional solutions offered by all sides have only rarely been examined in terms of the question of the appropriateness of sanctions. Because of the confusion over sanctions, there is a remarkable degree

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of attention to what are secondary aspects of the debate. The debate is easily sidetracked down dead ends. One of the most popular of these dead ends is the debate over the performance of teachers. To reverse a political campaign slogan of some years back, the real debate is not about competence; it is about principle. But this is not readily understood by the public.

To see how the debate can get sidetracked, let us consider a familiar aspect of modern education: busy work. To understand why it exists, we need to consider the present system of sanctions in taxpayer-funded education.

Busy Work

Back in the early 1950s, when I was a student in junior high school, "busy work" was a phrase used by educators to describe intellectually useless work that teachers would assign in order to fill up the day. For example, by keeping students busy copying printed materials, teachers could escape the burden of teaching. Senior educators admitted that busy work is a bad thing: uncreative pedagogy. Those classroom teachers who agreed with this assessment defined busy work as the kind of work which somebody else assigned.

The most graphic portrayal of busy work that I have ever seen was in the movie *Teachers*, in which one utterly incompetent high school teacher, known to his peers as "Ditto"—from the ditto machine—died during one class period while reading the newspaper at his desk, and his students did not know he had passed away until several class periods later. His peers had no respect for him, yet he remained on the faculty until the day he died.

On the whole, I do not remember being assigned busy work very often, although this may be due to my fading memory or, possibly, to the forgettable nature of the assignments. But there is no doubt that my peers and I recognized busy work when we saw it, and we resented it. We knew that the teacher who assigned busy work was evading his responsibilities at our expense. He was being paid to teach us, but he was doing little more than serving as a sort of caretaker. It did not take a college degree to serve as a caretaker.

I had a friend in theological seminary who had been the victim of busy work prior to his high school days. He had grown up in Harlem. He spoke of one teacher who had filled the room's blackboards each day with mindless materials, and had then told each class to copy all of it. My friend had no doubt that the teachers who had adopted such teaching methods had given up on their students. He had escaped this mind-numbing educational system only by taking a test and getting into Stuyvesant High School, one of New York City's three advanced placement high schools.

What had gone wrong with the system? From the point of view of the better students, everything. From the point of view of the system, nothing. It was performing exactly as designed, though of course not as promised and publicly defended.

First, teachers had lost faith in the abilities of their students to learn very much. Because they did not believe that their students could perform well, the teachers had ceased to perform well. In a sense, the teachers mimicked their mediocre students. It was a downward spiral: bad teaching, poor student responses, more bad teaching. The system of classroom sanctions was perverse. The students punished bad teaching with negative sanctions, but these negative sanctions made things worse.

Outside the classroom, the system of sanctions also produced a downward spiral. Parents did not know, did not care, or did not possess sufficient authority to change the system. They did not impose meaningful sanctions on the bureaucrats who ran the schools. Next, the taxpaying public could not easily police what went on inside those classrooms. Meanwhile, local school administrators had no economic or other institutional incentive to take the trouble to get the busy work teachers to change. Finally, the teachers were protected by the teachers' union, which made it difficult to fire incompetents.

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The Common Denominator: Ineffective Sanctions

What had gone wrong was the result of a consistent application of the existing system of sanctions. First, the worst teachers, knowing that poor student performance would reflect badly on their teaching ability, did their best to avoid testing their students' performance on a day by day basis. Besides, tests take time to administer and grade. No one required them to do this on a regular basis. They simply assumed that their students could not learn much. My friend was told that he was not intellectually capable of getting into Stuyvesant, and the school's counselor refused to administer the entrance exam. Only when my friend's father intervened and demanded that he be allowed to take the exam was he able to get in. My friend's father imposed direct, personal sanctions: threats. As for my friend's intellectual capacity, he began teaching himself Latin in junior high school. This meant nothing to his counselor.

Second, most parents had no authority over the teachers because local school attendance was compulsory. They could not send their children to another school. They could not impose the negative sanction known as "voting with your feet."

Third, parents did not pay for their children's education. The schools were tuition-free. Some parents did not demand much because the schools did not cost them anything. Perhaps they had suffered through a similar educational experience. In Harlem in the early 1950s, parents had little experience in organizing, especially those who had come up from the South. With neither the sanction of money nor the sanction of politics, they were easily ignored by teachers and the bureaucrats who employed them without policing them.

Fourth, most New York City taxpayers were not residents of Harlem. They did not see what was going on. In any case, they had very little authority over the allocation of educational revenues. The education bureaucrats had long since become sovereign over the funds collected from the taxpayers. He who pays the piper calls the tune in free market transactions, but when the threat of coercion undergirds the collection of funds, the primary goal of the tune-players is to insulate themselves from the tune-callers. This is done through political mobilization, but more importantly, through layers of bureaucracy between the politicians who collect and allocate the funds and the actual distribution of the funds. The more successful the bureaucracy, the more the politicians become the agents of the bureaucracy rather than agents of the voters.

Fifth, for the local school's administrators to admit that they had a problem with certain teachers would be to admit that they had failed in screening out incompetent employees. The longer the incompetents stay on the payroll, the more difficult it is for any bureaucrat to fire them. The question is: "Why did you wait so long?" This question itself calls into question the good judgment of the bureaucrats. The rule of academia is the rule of every bureaucracy: hire mediocre people who are neither so incompetent that they will call into question the screening abilities of those who hired them nor so competent that they will expose their peers as incompetents. The lowest common denominator gets progressively lower as time passes unless the bureaucrats are threatened with budget cuts: negative sanctions.

Sixth, the teachers' union was able to keep out of the legal workplace all those prospective teachers who were willing to work but who had not joined the union. The union was able to maintain its authority in much the same way as the school administrators did: through the coercive power of the State. The union had negotiated contracts that had transferred much of the screening process to the union. It had negotiated this contract because the local school board was compelled by state and federal law to negotiate with the union "in good faith," meaning that the board could not fill the empty positions with non-union teachers.

The result was a loss of faith: by the teachers in their students; by the students in their teachers; by the parents in the educa-

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tional system; by the administrators in the good judgment of the parents; and by the union in the administrators. In more recent years a new factor has been added: the loss of faith by the voters in the politicians.

At each level, the central factor was sanctions. By politicizing education, the voters consented to a system that rewards those educational bureaucrats who can devise ways to insulate their careers and their performance from the negative sanctions of the voters as well as the consumers, i.e., the parents who have legal authority over their children. The positive sanction of money (paychecks) continues; the negative sanction of parental wrath is deflected. The chief losers are the students.

Vouchers as Economic Sanctions

Will vouchers reduce busy work? Probably. But is this all that needs to be changed? Let us consider how the voucher system is said by its defenders to work. The parent will be given a voucher worth a specific amount of public tax money. This voucher will serve as a sanction: positive for the school that enrolls the student; negative for the school that loses the student.

The question still remains: Who holds the hammer? Who really administers the sanctions? The parent? Only as an intermediary, not as the source of the system's sanctions. The State grants to the parent the right to make a choice among those local schools that meet the State's standards, whether formal or ethical. For example, no politician in the New York City school system is going to vote for a system of vouchers that will enable parents to send their children to private schools that teach the innate inferiority of minorities—at least not those minorities that constitute powerful voting blocs in New York City. An Academy of the White Aryan Brotherhood is not going to become eligible to receive vouchers. Count on it. Furthermore, the U.S. Supreme Court will block the use of public funds in schools that do not meet the tests of secular education or that do not conform to the prevailing criteria of racial and sexual equality. We have already seen this in the Grove City College case and the Bob Jones University case.

The coercive power of civil government restricts the ability of buyers (parents) and sellers (teachers) to come to a mutually satisfactory agreement. The civil government controls the licensing of teachers. They must be graduates of State-accredited institutions. Furthermore, the federal government controls the negotiation process through restrictions established by the National Labor Relations Board. Trade unions, which include the teachers' unions, are granted certain immunities from free market forces. The State restricts non-union sellers of labor services from making unrestricted bids to buyers.

The sanctioning power embodied in an educational voucher does not originate with the parent. It originates with the political order and must be exercised within the framework established by that political order. The voucher is in fact a potential sanctioning device over all education, taxpayer-funded and parent-funded, that will be used by politicians to placate certain voting blocs at the expense of others. Voucher-using parents will become economic intermediaries positioned in between local schools and the politicians. But the ultimate authority over education will not change: in the hands of the voters and their agents, not parents and their agents. The voucher will increase the authority of parents over those schools that are eligible to receive vouchers, but this increase in authority will be restricted by law. In short, the voucher system creates the illusion of parental authority without the substance thereof.

Vouchers will become negative sanctions against those schools that teach ideas contrary to the prevailing political correctness or that adopt teaching methods contrary to the prevailing educational correctness. Schools that might have attracted parents who were previously willing to pull their children out of a system of no-parental-choice government education will find that

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the voucher system has in fact empowered the prevailing orthodoxy. These schools' market will shrink, as parents take their vouchers and their children to State-approved schools where the vouchers serve as currency. Parents will be tempted by the limited choice offered by "free" vouchers. Many parents will forgo the far greater educational freedom offered today by judicially unencumbered money.

Ideology Replaces Busy Work

I have previously defined "busy work" as intellectually useless work that teachers assign in order to fill up the day. The voucher system will have a tendency to reduce the quantity of busy work assigned. The least competent teachers will be replaced. But this does not solve the problem of ideology. The parent whose beliefs are at odds with the prevailing educational establishment will discover that busy work assigned by incompetent teachers was less of a threat to his authority, and also to the long-term outlook of his child, than a reformed educational program that self-consciously seeks to change the minds of children. By putting poor teachers under pressure, or perhaps even getting them fired for lack of student enrollment, the voucher's sanctioning authority will surely increase the efficiency of the taxpayer-funded school system to impart the prevailing politically correct ideology to a generation of students.

There are some parents who are not persuaded that education can ever become religiously neutral, politically neutral, or any other kind of neutral. Education is always a method of picking and choosing among competing ideas. It is therefore possible to censor ideas by gaining control over the educational system and not allowing any discussion of certain ideas. Lester Frank Ward, who provided American Progressives with their sociological worldview,[1] presented this strategy of institutional infiltration through ideological filtration as early as 1883. "Instill progressive principles, no matter how, into the mind, and progressive actions will result."[2] But there is a problem here: the negative reaction against the coercive suppression of ideas. "The attempt to change opinions by direct efforts has been frequently made. No one will deny that coercion applied to this end has been a signal failure."[3] Then how should progressive people change unprogressive minds who hold unprogressive views? *By a systematic program of exclusion and censorship*. "The forcible suppression of the utterance or publication in any form of unwelcome opinions is equivalent to withholding from all undetermined minds the evidence upon which such views rest; . . ."[4] Thus, he concluded: "It is simply that true views may as easily be created by this *method of exclusion* as false ones, which latter is the point of view from which this fact is regarded. The more or less arbitrary exclusion of error, *i.e.*, of false data, is to a great degree justifiable. . . . This, however, is the essence of what is here meant by education, which may be regarded as a systematic process for the manufacture of correct opinions."[5]

Ward had two great hatreds: the free market social Darwinism of Herbert Spencer and conservative Christianity. Neither perspective is taught in any government school textbook today. Ward's idea-screening process has obviously worked well.

Vouchers will no doubt decrease the amount of busy work assigned to children, but they will not increase the range of what Ward called "correct opinions." Vouchers will in fact reduce the range of available opinions by reducing the present demand for private education which is outside the existing taxpayer-funded educational establishment. Vouchers will place into the hands of this entrenched establishment the economic sanction necessary to reduce the income of counter-establishment private schools.

We like to say, "You get what you pay for." But if you are not allowed by civil law to pay for something, you probably will not get it. Vouchers—*politically correct money*—place in the hands of the educational establishment the authority to certify those institutions where voucher-holders will be

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allowed to spend their politically encumbered money.

Cutting Straight

A voucher is like a tool used to sharpen a circular saw that is set at an incorrect angle. The tool can make the blade cut smoother, but it cannot make it cut straight. If people who really want a straight-cutting saw waste their time sharpening a crooked one, and by doing neglect to hire skilled saw-straighteners, the sharpening tool is a liability.

A voucher is not a neutral tool that is useful in meeting the objectives of every parent's educational goals for his child. A voucher is a morally biased sanction. It rests on a presupposition: the State is sovereign over education, not parents. This presupposition leads to a series of conclusions. First, the taxpayer's sovereignty over his property must be sacrificed on the altar of State sovereignty. Second, the parent's range of choices must be limited—not by a law formally outlawing competing schools, but by restricting eligibility for reimbursement through vouchers. Third, the voucher-using parent is legitimately made an accomplice of the State in the coercive transfer of funds from the taxpayer to the educational establishment by way of the parent. This tends to reduce the parent's moral authority to challenge the educational establishment.

The parent, as a beneficiary of the wealth-transfer system, is tempted by the offer of "free," politically correct money to regard the coercive wealth transfer as morally valid. He is less willing to re-think the initial presupposition: the sovereignty of the State over education. He is willing to transfer the lion's share of his original authority—the authority to define the range of acceptable educational opinion—to the educational establishment. Just like that saw, he begins by thinking crooked. He is therefore less likely to demand that a different moral perspective be taught to his children. It would be naive on his part to imagine that the recipients of public funds for education will make it their first priority to challenge the moral validity of the use of State coercion to raise funds from the general public for the support of education.

The focus of the debate over vouchers has been on the sharpening process, not on setting the correct angle—correct as defined by the parent. The debate has, on the surface, been technical: how to deliver a superior educational product to children. But the prevailing definition of "superior education" has neglected the moral component of education. Specifically, it has ignored the question of the moral foundation of a system that uses force to achieve a positive goal: the education of children. We must never forget that the positive sanction of public education is funded through the imposition of negative sanctions: the confiscation of private property.

How straight can this blade cut? If all education rests on moral foundations, then how can a moral universe that denies the legitimacy of the use of force to achieve our personal goals be taught to successive generations by schools funded by such force? If the blade is set at an angle, how can it ever cut straight? Only if those in authority over it adjust the blade. If the moral blade is set at an angle, how can we ever learn to think straight? Only by re-thinking our morality. But who will help us to re-think our morality if our goals (education) and their goals (employment) are funded immorally?

Bribing a Prophet

The biblical prophet's job was to stand up for the truth. His walk had to match his talk. This was not always easy. If the enemies of truth could offer the prophet a bribe, even a concealed bribe, they could deflect the prophet's walk.

He who would reform any system is acting prophetically. He is coming before some establishment with this message: "The present way of doing things is wrong, not just technically but morally. It is time to abandon evil ways of doing things, which ultimately rest on evil notions of right and wrong. It is time to restructure our moral outlook. This will require the restructuring of existing sanctions—rewards and punish-

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ments—which promote the present evil system."

The entrenched establishment can protest the critic's analysis. But sometimes it is easier just to buy off the critic. If the establishment can persuade the critic to become a beneficiary of the present system, this will reduce the public impact of his message.

The biblical prophet had to be alert to the presence of a bribe. If someone in authority was offering him a personal incentive for no good reason, that person was up to no good. The prophet had to examine the gift as if it were bait on a hook; otherwise, he could be snared.

The bait may look safe at first. The hook may not be visible. The mark of a prophet was his ability to see through the gift to the underlying motive. Abram rejected a gift from the king of Sodom after Abram's victory over the invading Chedorlaomer. He said, "That I will not take from a thread even to a shoelatchet, and that I will not take any thing that is thine, lest thou shouldest say, I have made Abram rich" (Genesis 14:23). Abram's implicit argument was simple: If God is totally sovereign in history, then He must get all of the glory. If God is totally sovereign, then Abram must receive all of his rewards from God. God is totally sovereign; therefore, Abram concluded, he would accept no reward from the king of Sodom and, by implication, the gods of Sodom. The gift was bait; bad theology was the hook. Abram did not take the bait.

Today, there are millions of parents who have, on principle, pulled their children out of the taxpayer-funded educational system. They have done so in the name of a principle. But which principle? That is the question. Is it parental authority over education? Fine; this is a morally correct principle, which is why it is politically incorrect today. But remember: without sanctions, there is no authority; there is only opinion. The educational establishment denies this principle of parental authority. It asserts the State's authority over education. The State can impose negative sanctions on parents who refuse to adhere to this principle: compulsory education, teacher licensing, and taxation.

If these negative sanctions weaken or no longer persuade millions of parents, then there is a fall-back position available: positive sanctions. The voucher system is such a positive sanction, one that is far less threatening to the existing educational bureaucracy than an outright tax credit for each child in an accredited school. Ultimately, though, even the educational tax credit is bait, for such credits will only be allowed to parents whose children are in State-approved schools. Parents who send their children to politically incorrect schools will not be eligible.

This is a terrible evil of taxpayer-funded education. It creates a moral dilemma and an institutional threat to parents who are opposed to taxpayer-funded education because: (1) taxpayer funding violates the principle of non-coercive exchange; (2) taxpayer funding violates the principle of parental authority over education. Parents must oppose on principle the most attractive political hook of all: a tax credit—something that seems to decrease the State's authority, when in fact it increases the State's authority over education. It takes a tremendous act of will to resist such a large piece of bait.

The Locus of Authority

A standard phrase in the private school movement is this one: "Parents have authority over their own children's education." The statement rests on an assumption: the parent's legal status confers legal responsibility over the children.

So much for the assertion. Let us look at the sanctions. We must do this in order to identify the true locus of authority. Where does the parent obtain the funds to educate his children? From his own productivity? From money given to him by others? In short, from assets legally owned by him? Then he is economically sovereign over his children's education. There is consistency here: legal sovereignty and economic sovereignty match. He provides educational services for his children using resources

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legally in his possession. He awards positive sanctions (income) on some, thereby imposing negative sanctions (losses) on others. By giving the carrot to one school, he removes it from the others.

Any tampering with this system of sanctions necessarily transfers authority over education. *The source of the sanctions is the locus of authority.* If the State provides the sanctions through coercion, then the State is the locus of authority. Any attempt to disguise this locus of authority is an attempt to confuse the legal issue, which is ultimately a moral issue.

This is why the debate over vouchers has created so much confusion. It has clouded the moral issue because it has clouded the legal issue. The moral issue is the identification of the proper locus of authority. Vouchers inevitably retain the sanctioning authority in the hands of the State, which is the source of the funding. Those who defend vouchers may seek to evade the implications of their position, but those who are serious about retaining parental authority over education must not have their attention deflected. *Follow the money.* If the trail leads to the State, then so must the locus of authority.

Any argument based on the ideal of parental authority is undermined by vouchers. Those who defend the use of vouchers should, as a matter of moral principle, cease to invoke the argument of parental authority. They should publicly affirm the legitimacy of the State's authority over education, with parents serving merely as intermediaries who will decide which State-approved teachers and State-approved schools that teach a State-approved curriculum will prosper.

Conclusion

Earlier, I wrote: "Whenever we seek to resolve a conflict between moral positions, we must at some point examine the respective systems of sanctions. We must ask two questions. First, does the system of sanctions violate the moral principle that the sanctions are said to defend? Second, do the sanctions violate an even more fundamental system of morality?"

The popular defense of vouchers, based on the ideal of parental authority, violates the first principle. Only if the defender of vouchers forthrightly presents his recommendation as a means of strengthening the State's control over private education would the argument for vouchers be consistent.

Second, do the sanctions violate a more fundamental moral principle? The answer here is yes: the principle that the State is not to serve as an agency of positive sanctions. The State gains access to the wealth required to grant positive sanctions only by imposing negative sanctions on taxpayers. The State should lawfully impose negative sanctions only against those who have used violence or fraud to achieve their goals. The State's goal is the securing of justice through the imposition of negative sanctions, not the granting of rewards at the expense of the judicially innocent. The State must not be trusted with positive sanctions.

Vouchers violate both principles. They are a form of politically correct money. They are bribes. People who oppose today's politically correct use of coercion in order to fund education should oppose the idea of vouchers, tax credits for education, and every other piece of bait that the State offers. It is time to start cutting straight. □

1. Henry Steele Commager, *The American Mind: An Interpretation of American Thought and Character Since the 1880's* (New Haven, Conn.: Yale University Press, 1950), ch. 12.
2. Lester Frank Ward, *Dynamic Sociology; or Applied Social Science*, 2 vols. (New York: Appleton, [1883] 1907), II:547.
3. *Ibid.*
4. *Ibid.*
5. *Ibid.*, p. 548.

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Destruction Is No Blessing

Last January, a devastating earthquake struck Kobe, Japan. Who can forget the awesome scenes of destruction?—skyscrapers reduced to piles of rubble, freeways heaved and twisted, homes wiped out by fire. Thousands perished and one of the country's leading commercial hubs was left paralyzed.

Amid all that ruin, some observers saw a ray of hope. Destruction, they argued, will require repair and that means the creation of new jobs. The Kobe earthquake will actually stimulate economic activity, turning at least some of the pain of the initial losses into a national blessing.

"Despite the devastation," wrote Nicholas D. Kristof in the January 18 edition of the *New York Times*, "some experts said that in some ways the earthquake could give a boost to an economy struggling to recover from a long recession." The spending needed to rebuild the port of Kobe "may give a stimulus to Japan's economy, the world's largest after America's."[1]

This notion that destruction is an economic stimulus is not new. After World War II, some who surveyed the wreckage of western Europe argued that the rebuilding effort would lift the continental economy. Reflecting back on those years, British Prime Minister Harold Wilson once explained the rapid rise of Germany and the stagnation of Britain in these terms: Germany had the good fortune of having its manufacturing capacity totally wiped out, whereas Britain was still using plants that had survived the war. The implication was that Britain would be better off today if only Germany had dropped far more bombs on it in the 1940s.

After natural disasters here in the U.S., one sometimes hears the same line of reasoning. When floods in the Midwest left behind billions in lost property in 1993, then-Treasury Secretary Lloyd Bentsen openly declared on national television that the nation's economy would receive a healthy stimulus as a result.

It's hard to imagine survivors of the Kobe earthquake deriving much solace or consolation from such assurances. "I'm so glad my home was flattened because now I have the chance to rebuild it and stimulate the economy" is not a widely held view, I'm sure.

The great free market economist Henry Hazlitt dismissed "the blessings of destruction" myth in a chapter by that title in his classic *Economics in One Lesson*:

> No man would want to have his own property destroyed either in war or in peace. What is harmful or disastrous to an individual must be equally harmful or disastrous to the collection of individuals that make up a nation.
>
> Many of the most frequent fallacies in economic reasoning come from the pro-

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pensity, especially marked today, to think in terms of an abstraction—the collectivity, the "nation"—and to forget or ignore the individuals who make it up and give it meaning. No one could think that the destruction of war was an economic advantage who began by thinking first of all of the people whose property was destroyed.

In other words, the problem with all this is that some people are not using their heads to think this through; they are looking at a tree or two and ignoring the forest.

This is the same fallacy that arises if one looks only at where a thief spends his loot and not where he got it from in the first place. We don't assume that bank robbery is an economic stimulus just because some businesses benefit when the thief goes on a shopping spree. Everyone seems to understand, in that instance, that every dollar the thief spends at the local mall is a dollar that can't be spent by the people to whom the money really belongs.

When destruction is part of the equation, the futility ought to be even clearer. If the citizens of Japan rebuild Kobe at a cost of $20 billion, that's $20 billion they won't have for other things. Much will be lost forever because it is irreplaceable at any price. Anyone who simply observes the increased activity in the construction business as people spend to rebuild and then concludes that the earthquake is some sort of economic blessing in disguise is myopic and simplistic.

Wouldn't it be great if we lived in a world wherein destruction *was* indeed a magical route to economic progress? It's the one thing that governments do very well and have more experience in than any other group or institution. Blowing things up or tearing them down is a lot easier to accomplish than creating them in the first place—and for some, it can be downright fun as well. We could dispense with toil and sweat and just go on a rampage, knowing that the economy was being boosted in the process. If Mother Nature wouldn't cooperate by giving us an occasional disaster, we could blow up a few dams and create our own floods.

If there was any good news at all in the Kobe disaster, by the way, it wasn't to be found in the rubble. A headline in the January 28 *New York Times* said it all: "Kobe's Best Problem: Too Many Gifts." While government agencies drowned in their own red tape, private individuals and organizations poured forth a gusher of generosity. Relief supplies overwhelmed the city, so much so that within two weeks of the quake, officials were pleading "enough is enough!"

People helping people is a good thing. Wanton destruction of things of value is not. Simple truths, but some people don't yet seem to fully comprehend them. □

1. For a rebuttal to the experts, see Thomas L. Martin, "The Blessings of Earthquakes?" in *The Freeman*, May 1995, p. 275.

Op-Ed Update

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Capitalism Is Merciless—to Capitalists

by Allan Levite

Attending college in the late 1960s left me with many unique memories. Among these was the economics class in which the instructor told the students that such firms as IBM and Xerox were so huge and powerful that they dominated their markets. Smaller competitors were helpless against them. They exercised such tremendous control over patents and technology, and spent so much on research and development, that other firms in their industries could never hope to compete effectively, much less overtake them. For these reasons, government intervention was necessary to protect both consumers and competitors.

Of course, this sort of thinking was neither confined to the 1960s nor the exclusive product of economics professors. Many decades ago, socialist author George Orwell, in an effort to demonstrate the superiority of socialism over capitalism, made much the same point when he mentioned a phonograph company that had bought a patent for a superior phonograph needle. The company did not produce the needle and never intended to. It simply wanted to kill the invention, so that it would not compete with its existing product line. (Orwell seems to have forgotten that patents are government-created and government-enforced monopolies.) He used this example to illustrate his point that capitalism suppresses more technology than it creates. Under capitalism, he wrote, money is risked only on projects that promise quick profits. Remove the profit principle, he claimed, and inventors would have a free hand.[1]

But time has completely disproven his theory. The phonograph companies were completely unable to use this tactic or any other to stop the spread of cassette tape and CD-ROM technology. This is an ample illustration that no matter how much they might try, capitalists cannot repeal the laws of markets. (Governments have also tried to do so, with the same lack of success.) For brief periods, capitalists can dominate markets or industries, but the achievement of such domination is always temporary. It sets in motion forces that no capitalist or group of capitalists could ever control. Lucrative profits, for example, attract competitors; and soon, the level of profit evens out. This does not prove Marx's thesis about the falling rate of profit, for a decline of profitability in one industry will be offset by gains in another. But it does help to disprove the notion that "the big boys" run things. If they did, they would surely be able to prevent the loss of their own markets!

Both IBM and Xerox had ample power over technology by means of their tremendous research expenditures and control of patents, but it did not help them keep their markets. As for projects presumably being squelched because they do not offer quick profits, one need only compare the number

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of new ventures that appeared in socialist countries with the number that appear in capitalist countries. Whether or not a project promises profits is largely a matter of guesswork—that is, opinion. And opinions are never lacking. The mere fact that so many profit-oriented ventures fail is sufficient proof that a venture hardly needs to be demonstrably lucrative to be attempted.

On occasion, a product will enjoy such success among consumers that its leadership over competitive brands will appear to be unassailable. Backed by the profits thus generated, the firm will spend large sums on advertising to maintain the product's leadership. Competitors will be unable to supplant it. Because of this market domination, the lucky corporation is protected from price competition and can unfairly maintain monopoly prices and profits—or so we are told. This certainly seemed to be the case with Marlboro cigarettes, which has been the leading brand for a long time. I've never smoked myself, so I've always wondered if Marlboro's market leadership was solely the product of its hugely successful advertising efforts. But most of the smokers I've asked believe that Marlboros taste better than other brands. Despite this presumably better taste, however, and even though Philip Morris spends enormous sums on advertising this brand, it has lost some of its market share to low-priced "generic" cigarettes, which are hardly even advertised. Philip Morris was forced to respond by lowering Marlboro's price by 40 cents per pack, which increased its market share by about 5 percent, but contributed to a fall in the company's operating profit from $5.2 billion to $2.8 billion.[2] There have been very few instances in business history of brands as successful and powerful as Marlboro. Yet it could still not resist these competitive pressures.

Price Competition in the Computer Industry

The necessity of competing in terms of price is nothing new, nor is it confined to cigarettes. The company I work for sells hard disks for personal computers. The extent to which prices of PC's have dropped in the last ten years is already well known, but let me provide a typical example from our price lists. Our Fall 1991 price list showed a price of $5,099 for a 1-gigabyte (1,000-megabyte) SCSI hard disk. The current price for a drive of that capacity is $1,099—a drop of $4,000. Not only that, but our newer model also takes up less desk space and transfers data at a 42 percent faster rate.

Such examples did not need to wait for the development of the PC. Penicillin sold at first for $20 per dose. As more and more companies began to manufacture it, the price eventually dropped to 2 cents.[3] In 1908, Henry Ford's Model-T Touring Car sold for $850. Eight years later, a new Ford Touring Car sold for only $360.[4] A labor union would consider it a great victory to have won for its members as much money as these capitalists allowed consumers to save. If a government bureau had disbursed the same amounts to the public, high school history textbooks from that era to this one would have been praising the foresight and benevolence of the bureau's policies.

If capitalists had as much control over markets and prices as we have been led to believe, it seems highly unlikely that they would permit such price drops to occur. If costs decline, why not just maintain the retail price at its previous level and reap huge profits? The answer is that this cannot be done. Even the less astute capitalists are quick to see that if they drop prices just a little, additional sales can be gathered. Naturally, as Adam Smith pointed out over two centuries ago, they would also be quick to see that it would be advantageous to conspire together and agree to fix prices at certain levels, preventing a price war. But such agreements never last long. The same economic forces that inspire capitalists to make such pacts also break the pacts apart. Even if outsiders who are not parties to the agreement can somehow be kept under control and prevented from undercutting prices, the parties to the agreement

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will not hold to it for long. There is always more to be gained from breaking the covenant than from sticking to it. More importantly, consumers will find substitutes for the price-fixed product if they perceive that its price is being held above the true market price, which reflects the value they put on it.

The most noteworthy point about the conspiratorial argument is that anyone who accepts it would have to assume that *all* capitalists would operate in this manner. To be sure, all capitalists are driven by the prospect of financial gain, so they would all have a strong incentive to keep profits high by fixing prices and avoiding price competition. Geographic distance would no longer minimize this effect. It is true that foreign trade has played an increasingly important role in the world economy, and that capitalists in one country now compete against capitalists in other countries. But if capitalists in different countries wish to conspire together to fix prices, modern means of communication make this no more difficult than placing a phone call.

The capitalists in the computer industry would be characterized by all this no less than any others. But as we have seen, price wars have been the rule nevertheless, and not only in any one country, but on a worldwide basis. This gives us an excellent opportunity to look back in retrospect on the Justice Department's antitrust suit against IBM, which was riddled with inaccuracies and contradictions, and which had to keep changing its premises to keep pace with changes in the market. In 1982, the Solicitor General finally decided that the case was without merit and dropped it—after both sides had wasted hundreds of millions of dollars fighting it.[5] (Part of this was money that IBM might have spent on research and development.) But if the government had wanted to break up IBM, it could have done so without spending a penny of taxpayers' money. It could simply have waited for the market to do the job. In 1993, IBM lost eight *billion* dollars.

The Pitfalls of Bureaucratic Management

This illustrates that the market is not the only force that tends to cut giant firms down to size. Technology and bureaucracy can do that all by themselves. IBM has been the victim of both. Computer technology has made mainframe computers—IBM's mainstay—increasingly obsolete. IBM could have shifted entirely to smaller machines, but its bureaucracy resisted change for too long. Bureaucracy not only displaces the entrepreneurial spirit that turns small firms into big ones, it also makes the entrepreneurial spirit unwelcome. Big firms become bureaucratic, and bureaucratic firms become cumbersome and slow to respond to customers' needs. Decisions take too long to make, and smaller firms that are not encumbered by such problems find ways to serve customers' needs better. Government bureaucracies can endure because governments do not need to make a profit or to respond to competitive pressures. But in industry, the bureaucracy that is typical in large firms can undermine the most powerful corporations and gradually decrease their market power, while increasing that of the smaller firms.

This is not to say that IBM was inefficient or that it produced bad products. In fact, it has always been known for making good products, which is why it got to be as big as it was. But even good products cannot create and hold monopolies, because substitutes exist and because even firms that make good products might not be making the *right* products for the market. Despite IBM's size and strength, other firms began to make other products that many of IBM's customers started using as substitutes for IBM's mainframes. The market "grew up," and no longer wished to be as dependent on IBM and its machines as it had been. The advent of PC's made it possible for customers to write or buy software that could perform the tasks they needed done, without depending on IBM.

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Socialism and Innovation

But couldn't socialism accomplish the same thing, by simply breaking up large corporations or nationalizing them? Let's analyze how this would work—specifically, how it would treat innovations, since economic growth depends on innovations. Suppose that the government had taken over all industry by 1970. In 1975, a government planning bureau would have been visited by Steve Jobs and Steve Wozniak, the founders of Apple Computer. These young hobbyists would have had to ask the bureau to allocate funds for their project. But the government bureau would have had little reason to redirect money that had been destined to fill immediate needs, and devote it instead to an untried, unproven, and highly doubtful project—one that had nothing to do with necessities such as food, shelter, and health care. To top it all off, Jobs and Wozniak were neither recognized authorities nor successful managers. Worse still, in order for their machine to be useful, someone would have had to write software programs for it, which had not been done at that time. But in a country where the profit motive existed, the "two Steves" had little difficulty finding venture capitalists willing to fund their project. The fact that IBM dominated the computer industry at the time did not retard their progress in the least.

Many *unanticipated* uses were found for the machine they created. Socialist planning does not take unanticipated uses into account, and couldn't even if it wanted to. The trial-and-error system of profit and loss determines what works much more adequately than central planning ever could. And if the project of the "two Steves" had failed (under capitalism), only the venture capitalists would have suffered a financial loss. Under socialism, the taxpayers as a whole would have borne the loss. *This* is why Orwell's fears that capitalism would suppress innovation are groundless, although they would be true with respect to socialism.

What lessons can we draw from all this? First of all, capitalism is a great force for efficiency. It rewards firms that serve their customers' needs and punishes firms that are inefficient. It allows firms to grow to huge size and to amass great wealth—if they earn it. If they cease to do so, or if competitors do it better, they will decline, no matter how big and powerful they were.

These are lessons we should all ponder the next time we are told that the powers of the government must be enlisted to redirect industrial activity towards various "public" goals. □

1. George Orwell, *The Road to Wigan Pier* (New York: Harcourt Brace Jovanovich, 1958), pp. 206–07.
2. Andrew E. Server, "How to Escape a Price War," *Fortune*, June 13, 1994, p. 83.
3. Stanley Siegelman, "Pharmaceuticals," *Chemical Week*, August 2, 1989, p. 32.
4. Richard S. Tedlow, *New and Improved: The Story of Mass Marketing in America* (New York: Basic Books, 1990), p. 125.
5. Charles H. Ferguson and Charles R. Morris, *Computer Wars* (New York: Times Books, 1994), pp. 10–11.

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Lessons from a Year in Romania

by Sandra L. Goodman

Those of us who enjoy the benefits of a market system can learn a lot from the recent experiences of Central and Eastern European countries. For me, spending a year in Romania teaching economics to university students reinforced three important lessons.

Lesson #1: Resources are scarce, and, one way or another, people will compete for them.

At any point in time, resources are limited. Therefore, people are forced to make choices about how to use available resources to their best advantage.

Because of scarcity, people must compete for what is available. The form competition takes is shaped by the constraints and incentives people face. In markets, prices reflect competitive pressures. Producers bid up the prices of resources they believe will help create goods to satisfy consumers' wants. Consumers bid up the prices of goods they value. Goods are distributed to the people who value them the most, as indicated by the prices they are willing to pay.

Under socialism, where prices are fixed and thus not allowed to reflect a good's value, other methods develop to distribute goods to the people who want them. Queuing is one of the most noticeable systems. In Romania in 1993, most prices remained fixed, and the money price of goods was very low. A more accurate indicator of a good's value was the amount of time people had to spend waiting in line to buy it.

Periodic announcements of price increases by the government fueled inflationary fears and encouraged hoarding. Queues appeared, which heightened people's fear of future shortages. When an increase in the price of gasoline was announced, lines of sputtering cars, filled with empty plastic containers, snaked through city blocks and along highways waiting for gasoline. When sugar prices were slated to increase, people rapidly depleted the kilogram-sized paper bags of sugar from store shelves.

Not far from my flat was an *alimentara*, a state-run grocery store that sold a limited selection of canned foods, dairy products, bread, and, every Thursday, toilet paper. Late in the evening people would place their *pungas*, the plastic shopping bags Romanians carry everywhere because you can never be sure when and where you'll find what you're looking for, along the concrete porch outside the front door. By 6:00 a.m., when the *alimentara* opened, people had joined their *pungas* in the queue. I never figured out what kept people from cheating in this arrangement—stealing bags or jumping ahead. But there was some sort of monitoring system because the line of *pungas* was always there.

Just as prevalent as queues is the unoffi-

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cial distribution system. Whatever you call it—graft, political favors, backscratching—unofficial connections pervade transactions in Romania. As a student told me, "It helps to have an uncle somewhere." Grocery clerks routinely hold back part of the store's merchandise to sell to friends and relatives.

In the past, instead of waiting months for shoddy and indifferent medical treatment, patients and their families provided doctors with fresh meat and other payments in kind to obtain timely and adequate care. Now they must supply hard currency to obtain a private room instead of a crowded ward, or to get prompt surgery and periodic doctor's visits while recuperating.

Lesson #2: There are no markets without private property rights.

To work, markets must be based on a system of functional property rights that is generally accepted as fair. To be fully functional, property rights must be clearly defined, enforced, and readily transferable. Unfortunately, the property rights regime in Romania, like some of the others being established in Eastern Europe, is incomplete.

For example, consider Romania's 1991 Land Law. This law returns agricultural lands that were confiscated after World War II to their former owners. Additionally, workers on cooperative farms, Romanian city-dwellers who move to the countryside and work the land, and civil servants in rural areas are eligible for redistributed land. This latter group is barred from selling land they receive for ten years.

By mid-1992, only about 75 percent of the 5 million former owners whose land had officially been returned actually had titles to their land.[1] And much of Romania's fertile agricultural land lay fallow in 1993.

A university professor I knew in Timisoara, a city located on the far western side of the country, had inherited an apple orchard near the Ukrainian border on the eastern side of the country. He knew nothing about growing apples, had no desire to be an apple farmer, and had no money to hire someone to tend the orchard. And, of course, he had no ownership title or other documents which he would need to sell the land to a real farmer. So, for lack of a tradeable property right, the orchard remained untended, and the apples rotted on the ground.

Peasants didn't know who would own the crops they harvested, so they didn't plant. From train windows I saw untilled fields of brown stubble extend to the horizon.

Occasionally, I would see men hunched over hoes, standing above a row of crops (most likely potatoes or cabbage). They rarely had more than a hoe, horse, cart, and wooden plow to work their land. The process of privatizing state property had not yet extended to state-owned farm equipment. And, in any case, large-scale equipment designed for industrial collective farms is useless on small, individual plots.

Problems caused by insecure ownership rights to land and crops forced Romania to import grain and foodstuffs in 1993. Historically, Romanians have taken great pride in their reputation as "the breadbasket of Europe." Passing along stories from their grandmothers about former bountiful harvests, students told me with shame that potatoes had been imported into the country for over two years.

Not only must private property rights be complete, but public acceptance requires that they be perceived as fair by the majority of the populace. Romania's land law distributes land to former owners that might not be the same property that was previously owned, nor is it necessarily in the same area. The amount of land that can be returned to an owner is restricted to ten hectares (22 acres), regardless of the size of the original holding.

These elements of the law erode public support. And because ownership shares are determined by local governmental authorities, many Romanians feel that the privatization scheme is merely a continuation of political favors and government's control over production.

Lesson #3: Entrepreneurs move resources toward higher valued uses.

As the government of Romania gradually became less oppressive during my stay, I

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was able to compare government's waste of resources with the use of resources by private entrepreneurs. It was clear that entrepreneurs, however new to the task, were moving resources toward the people who value them.

The Electromotor factory in Timisoara illustrates how resources are wasted under socialism. Electromotor was the largest user of copper in the Banat region through the 1980s and early 1990s. The factory makes industrial motors whose bobbins are spun with copper. By local standards, its operations are considered efficient. Motors are spun with the correct amount of copper, and most of the copper allocated to the firm finds its way around a motor.

But the fact is that, before 1990, Electromotor's major customers, French and Italian manufacturers, bought the motors merely for the copper they contained. Buying Romanian motors, disassembling them, and using only the copper was cheaper than buying copper at world prices.

When Ceausescu's Communist government fell in 1990, Electromotor was forced to pay world prices for imported copper, and the price of Electromotor motors increased to world levels. The French and Italian customers halted their orders, but Electromotor continued to produce motors. In 1993, some 80 percent of their production was unsold, piled and rusting behind the factory.

Other Romanian factories produce chlorine products with a mercury-based production process that uses a great deal of energy. In the West, this now-wasteful process is largely obsolete, phased out in the 1970s as energy prices rose and worry about the dangers of mercury increased. To maintain their profits, Western firms minimized costs by reducing their use of energy and avoided liability by stopping the use of mercury. But Romanian companies, following a fixed production plan and operating without a legal system that protects the rights of others, had no incentive to upgrade their products or improve their processes.

The state-owned bread company wastes precious food resources. Bread produced by the state is heavy, tasteless, and inedible within 48 hours. Yet, before the price of bread started to increase, people bought ten to 12 loaves a day and fed it to pigs they were fattening for slaughter. It was cheaper than corn or any other feed.

During the year I spent in Romania, prices were slowly being freed and private businesses were emerging. The most noticeable impact was an increase in the availability of consumer goods. Since most Romanians lack access to the capital required for industrial production, the country's fledgling private sector centered around retail activities. Things people wanted began to appear in shop windows: jeans and t-shirts from Turkey, appliances from Germany, video and stereo equipment from Korea and China, canned foods from Italy and Greece, fur caps from Russia, and locally grown houseplants and flowers.

Cottage industries such as handicrafts, woodwork, and art shops sprang up, too. Copying services were also available at many small shops. My university students no longer had to copy entire lectures by hand (textbooks were rarely provided). Now I could easily make copies for them myself. Private seamstresses and tailors had long existed, but now they began to produce dresses that resembled the French and Italian imports that had recently appeared in private shops. Although bread from private bakeries cost more than twice as much as state bread, bread sales from private bakeries were thriving. The smell of fresh, hot, edible bread had people lining up on the sidewalks when loaves appeared from the ovens. This bread was not fed to pigs.

Even in industry, which remained largely state-owned, there were changes. Before 1990, factories received quotas of steel and other metal inputs. Factory managers usually requested more metal than they needed for production, for a variety of reasons—to trade metal on the black market, to meet unrealistic production quotas, and to cover the losses of metal stolen by workers.

Now that factories have to buy metal at world prices, they use it much more conservatively. Before 1990, they were re-

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quired to return a specific percentage of metal to the Ministry of Industry (supposedly for recycling but mostly to ensure that it wasn't all stolen). Ministry officials report that the amount of steel returned for recycling is less than half what they received before 1990, a sign that steel is being used in production, not wasted or stolen.

Conclusion

F. A. Hayek identified the basic problem facing an economy as that of identifying and choosing among all the possible ways that resources might be used to satisfy people's wants. Central planners simply don't have enough information or the incentives to make resource-use choices that can sustain consumer satisfaction and economic growth. In Romania, this meant that products were produced that nobody wanted and raw materials were wasted.

In contrast, markets channel competitive pressures into a process in which individuals, acting as entrepreneurs, have the incentive to discover new and better ways to use resources. Facilitated by a legal system that protects private property rights, markets create a level of social wealth and satisfaction unrivaled by any alternative structure. In Romania in 1993, the importance of that system became clearer to me than ever before. □

1. Roman Frydman, Andrzej Rapaczynski, John S. Earle, *The Privatization Process in Central Europe* (New York: Central European University Press, 1993), p. 255.

Why Socialism Failed

by Mark J. Perry

Socialism is the Big Lie of the twentieth century. While it promised prosperity, equality, and security, it delivered poverty, misery, and tyranny. Equality was achieved only in the sense that everyone was equal in his or her misery.

In the same way that a Ponzi scheme or chain letter initially succeeds but eventually collapses, socialism may show early signs of success. But any accomplishments quickly fade as the fundamental deficiencies of central planning emerge. It is the initial illusion of success that gives government intervention its pernicious, seductive appeal. In the long run, socialism has always proven to be a formula for tyranny and misery.

A pyramid scheme is ultimately unsustainable because it is based on faulty principles. Likewise, collectivism is unsustainable in the long run because it is a flawed theory. Socialism does not work because it is not consistent with fundamental principles of human behavior. The failure of socialism in countries around the world can be traced to one critical defect: it is a system that ignores incentives.

In a capitalist economy, incentives are of the utmost importance. Market prices, the profit-and-loss system of accounting, and private property rights provide an efficient, interrelated system of incentives to guide and direct economic behavior. Capitalism is based on the theory that incentives matter!

Under socialism, incentives either play a minimal role or are ignored totally. A centrally planned economy without market prices or profits, where property is owned

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by the state, is a system without an effective incentive mechanism to direct economic activity. By failing to emphasize incentives, socialism is a theory inconsistent with human nature and is therefore doomed to fail. Socialism is based on the theory that incentives don't matter!

In a radio debate several months ago with a Marxist professor from the University of Minnesota, I pointed out the obvious failures of socialism around the world in Cuba, Eastern Europe, and China. At the time of our debate, Haitian refugees were risking their lives trying to get to Florida in homemade boats. Why was it, I asked him, that people were fleeing Haiti and traveling almost 500 miles by ocean to get to the "evil capitalist empire" when they were only 50 miles from the "workers' paradise" of Cuba?

The Marxist admitted that many "socialist" countries around the world were failing. However, according to him, the reason for failure is not that socialism is deficient, but that the socialist economies are not practicing "pure" socialism. The perfect version of socialism would work; it is just the imperfect socialism that doesn't work. Marxists like to compare a theoretically perfect version of socialism with practical, imperfect capitalism which allows them to claim that socialism is superior to capitalism.

If perfection really were an available option, the choice of economic and political systems would be irrelevant. In a world with perfect beings and infinite abundance, *any* economic or political system—socialism, capitalism, fascism, or communism—would work perfectly.

However, the choice of economic and political institutions is crucial in an imperfect universe with imperfect beings and limited resources. In a world of scarcity it is essential for an economic system to be based on a clear incentive structure to promote economic efficiency. The real choice we face is between imperfect capitalism and imperfect socialism. Given that choice, the evidence of history overwhelmingly favors capitalism as the greatest wealth-producing economic system available.

The strength of capitalism can be attributed to an incentive structure based upon the three Ps: (1) *prices* determined by market forces, (2) a *profit-and-loss* system of accounting and (3) *private property* rights. The failure of socialism can be traced to its neglect of these three incentive-enhancing components.

Prices

The price system in a market economy guides economic activity so flawlessly that most people don't appreciate its importance. Market prices transmit information about relative scarcity and then efficiently coordinate economic activity. The economic content of prices provides incentives that promote economic efficiency.

For example, when the OPEC cartel restricted the supply of oil in the 1970s, oil prices rose dramatically. The higher prices for oil and gasoline transmitted valuable information to both buyers and sellers. Consumers received a strong, clear message about the scarcity of oil by the higher prices at the pump and were forced to change their behavior dramatically. People reacted to the scarcity by driving less, carpooling more, taking public transportation, and buying smaller cars. Producers reacted to the higher price by increasing their efforts at exploration for more oil. In addition, higher oil prices gave producers an incentive to explore and develop alternative fuel and energy sources.

The information transmitted by higher oil prices provided the appropriate incentive structure to both buyers and sellers. Buyers increased their effort to conserve a now more precious resource and sellers increased their effort to find more of this now scarcer resource.

The only alternative to a market price is a controlled or fixed price which always transmits misleading information about relative scarcity. Inappropriate behavior results from a controlled price because false information has been transmitted by an artificial, non-market price.

Look at what happened during the 1970s

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when U.S. gas prices were controlled. Long lines developed at service stations all over the country because the price for gasoline was kept artificially low by government fiat. The full impact of scarcity was not accurately conveyed. As Milton Friedman pointed out at the time, we could have eliminated the lines at the pump in one day by allowing the price to rise to clear the market.

From our experience with price controls on gasoline and the long lines at the pump and general inconvenience, we get an insight into what happens under socialism where every price in the economy is controlled. The collapse of socialism is due in part to the chaos and inefficiency that result from artificial prices. The information content of a controlled price is always distorted. This in turn distorts the incentives mechanism of prices under socialism. Administered prices are always either too high or too low, which then creates constant shortages and surpluses. Market prices are the only way to transmit information that will create the incentives to ensure economic efficiency.

Profits and Losses

Socialism also collapsed because of its failure to operate under a competitive, profit-and-loss system of accounting. A profit system is an effective monitoring mechanism which continually evaluates the economic performance of every business enterprise. The firms that are the most efficient and most successful at serving the public interest are rewarded with profits. Firms that operate inefficiently and fail to serve the public interest are penalized with losses.

By rewarding success and penalizing failure, the profit system provides a strong disciplinary mechanism which continually redirects resources away from weak, failing, and inefficient firms toward those firms which are the most efficient and successful at serving the public. A competitive profit system ensures a constant reoptimization of resources and moves the economy toward greater levels of efficiency. Unsuccessful firms cannot escape the strong discipline of the marketplace under a profit/loss system. Competition forces companies to serve the public interest or suffer the consequences.

Under central planning, there is no profit-and-loss system of accounting to accurately measure the success or failure of various programs. Without profits, there is no way to discipline firms that fail to serve the public interest and no way to reward firms that do. There is no efficient way to determine which programs should be expanded and which ones should be contracted or terminated.

Without competition, centrally planned economies do not have an effective incentive structure to coordinate economic activity. Without incentives the results are a spiraling cycle of poverty and misery. Instead of continually reallocating resources towards greater efficiency, socialism falls into a vortex of inefficiency and failure.

Private Property Rights

A third fatal defect of socialism is its blatant disregard for the role of private property rights in creating incentives that foster economic growth and development. The failure of socialism around the world is a "tragedy of commons" on a global scale.

The "tragedy of the commons" refers to the British experience of the sixteenth century when certain grazing lands were communally owned by villages and were made available for public use. The land was quickly overgrazed and eventually became worthless as villagers exploited the communally owned resource.

When assets are publicly owned, there are no incentives in place to encourage wise stewardship. While private property creates incentives for conservation and the responsible use of property, public property encourages irresponsibility and waste. If everyone owns an asset, people act as if no one owns it. And when no one owns it, no one really takes care of it. Public ownership encourages neglect and mismanagement.

Since socialism, by definition, is a system marked by the "common ownership of the means of production," the failure of socialism is a "tragedy of the commons" on a

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national scale. Much of the economic stagnation of socialism can be traced to the failure to establish and promote private property rights.

As Peruvian economist Hernando de Soto remarked, you can travel in rural communities around the world and you will hear dogs barking, because even dogs understand property rights. It is only statist governments that have failed to understand property rights. Socialist countries are just now starting to recognize the importance of private property as they privatize assets and property in Eastern Europe.

Incentives Matter

Without the incentives of market prices, profit-and-loss accounting, and well-defined property rights, socialist economies stagnate and wither. The economic atrophy that occurs under socialism is a direct consequence of its neglect of economic incentives.

No bounty of natural resources can ever compensate a country for its lack of an efficient system of incentives. Russia, for example, is one of the world's wealthiest countries in terms of natural resources; it has some of the world's largest reserves of oil, natural gas, diamonds, and gold. Its valuable farm land, lakes, rivers, and streams stretch across a land area that encompasses 11 time zones. Yet Russia remains poor. Natural resources are helpful, but the ultimate resources of any country are the unlimited resources of its people—human resources.

By their failure to foster, promote, and nurture the potential of their people through incentive-enhancing institutions, centrally planned economies deprive the human spirit of full development. Socialism fails because it kills and destroys the human spirit—just ask the people leaving Cuba in homemade rafts and boats.

As the former centrally planned economies move toward free markets, capitalism, and democracy, they look to the United States for guidance and support during the transition. With an unparalleled 250-year tradition of open markets and limited government, the United States is uniquely qualified to be the guiding light in the worldwide transition to freedom and liberty.

We have an obligation to continue to provide a framework of free markets and democracy for the global transition to freedom. Our responsibility to the rest of the world is to continue to fight the seductiveness of statism around the world and here at home. The seductive nature of statism continues to tempt and lure us into the Barmecidal illusion that the government can create wealth.

The temptress of socialism is constantly luring us with the offer: "give up a little of your freedom and I will give you a little more security." As the experience of this century has demonstrated, the bargain is tempting but never pays off. We end up losing both our freedom and our security.

Programs like socialized medicine, welfare, social security, and minimum wage laws will continue to entice us because on the surface they appear to be expedient and beneficial. Those programs, like all socialist programs, will fail in the long run regardless of initial appearances. These programs are part of the Big Lie of socialism because they ignore the important role of incentives. Socialism will remain a constant temptation. We must be vigilant in our fight against socialism not only around the globe but also here in the United States.

The failure of socialism inspired a worldwide renaissance of freedom and liberty. For the first time in the history of the world, the day is coming very soon when a majority of the people in the world will live in free societies or societies rapidly moving towards freedom.

Capitalism will play a major role in the global revival of liberty and prosperity because it nurtures the human spirit, inspires human creativity, and promotes the spirit of enterprise. By providing a powerful system of incentives that promote thrift, hard work, and efficiency, capitalism creates wealth.

The main difference between capitalism and socialism is this: Capitalism works. □

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THE FREEMAN
IDEAS ON LIBERTY

The New Nihilism

by Michael D. Weiss

On the streets of New York City, not far from the complacent New Age ambiance of the touristy West Village cafes and uptown Sushi bars, terror culture is afoot. Arising from post-modernism, terror culture is the "voice" of a new movement. With growing force and articulation, not to mention federal funding, this terrible voice echoes from Columbia's Philosophy Hall to the trendy coffee bars of SoHo and the squatters' "apartments" of Manhattan's midtown. This new movement has been called the paradigm of the twenty-first century, but its philosophy signals nothing less than the death of civilization.

Although the stench of death is strongest below 14th Street, the signs of it are everywhere. From phone sex ads and the club listings in underground newspapers, a careful observer glimpses the cultural terrorists. Ghoulish books called *Hunting Humans* and *The Atrocity Exhibition* fill their shelves. *Faces of Death* (a movie available at most video rental stores containing spliced footage of actual killings) and hard-core pornography sit next to their VCRs. Tattoos and piercing deface their bodies. Dressed in torn jeans or in the all-black uniform of their movement, they frequent the nightclubs, galleries, and bookstores of the City.

What is truly frightening about terror culture is that it is gaining ground, making its way into the mainstream. One of the bestselling books and most popular American movies in recent years, *Silence of the Lambs*, was decidedly terroristic. The serial killer, Hannibal Lecter (played by Academy-award winner Anthony Hopkins), was transformed into a Sherlock Holmes-type hero. On television, talk shows and real-life crime shows popularize violence and fringe lifestyles. After the Jeffrey Dahmer case, a California trading-card distributor released serial killer cards for kids. Rock album covers are no longer for the squeamish and many would shock a forensic physician.

College fashion is ugly. Women sport black hair and nose rings, wear men's "Doc Marten's" shoes or cowboy boots, ripped jeans, and t-shirts sporting bizarre, horrifying, or obscene logos. According to Lola, a pink-haired, nose-ringed student at New York's Parsons School of Art, "Post-modernism is the rage in art schools. Everybody dresses in black. It's fashion." In fact, every person I talked to, whether a self-proclaimed devotee of terror culture or not, conceded that terror culture has affected the contemporary cultural scene. Terror historian Arthur Kroker describes the new post-modernism as "playing at your local theater, TV studio, office tower, doctor's office, or sex outlet."[1]

Borrowing much from the relativists, terror culture has at its core radical nihilism, a complete subversion and rejection of value. Terror culture goes beyond the relativist observation that all concepts of value or quality are contingent and socially con-

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structed and ultimately espouses a theory of anti-value.

From the Graves of Academe

To understand terror culture one must look to its genesis in academic post-modernism. Post-modernism, as its name suggests, is first and foremost a reaction to modernity. "Modernity" represents a belief in progress and in the value of art, science, and religion. The modern era, according to historian Arnold Toynbee, is "an unbroken vista of progress toward Earthly Paradise" full of idealism and technological optimism.[2] The modernist world is orderly and logical, and man can ultimately conquer it through reason.

Post-modernism, like relativism, rejects modernity's premise that human beings will achieve a progressive realization of truth through human endeavor. As Professor Todd Gitlin of UC Berkeley expressed it, "Post-Modernism derides the search for depth as mere nostalgia."[3] The post-moderns reject teleological belief systems; they reject the notions of progress, truth, and beauty because these notions only make sense inside our culture's current way of looking at things.

Employing these ideas, a painting movement has emerged in New York City which rejects all distinctions between bad and good art by employing tasteless images, inept drawing, poor craftsmanship, and unschooled color. The movement's 1978 show at the New Museum of Contemporary Art had the title "Bad Painting."[4] As expressed by Julie Wachtel, a post-modern artist whose works consist of traces of cartoon figures from cheap greeting cards directly onto canvas, post-modernism rejects the very "idea of quality."[5]

The war on civilization has certainly begun on the streets of New York. On Broadway, near Broome Street, vendors sell disembodied mannequin parts for $5 apiece (3 for $12). On St. Marks at Second, sidewalk artists hawk obscene and grotesque pictures: an American flag above which sits a half-clothed stripper in a Grim Reaper's cowl, mountains of skulls against a post-nuclear backdrop, headless businessmen, rotting corpses in bondage. At Art 54 at 54 Grand, black and white lithographs of mangled children (triple-sized) and fallen angels sell for $3,500. The curator tells me that the pieces sell very well. "I get a lot of interest in them. I like them. The subject matter may be a little much, but I think that's the point. People want to be a little bit shocked."

St. Mark's Books at 9th and 3rd advances the war on civilization. The store is full of urban primitives (the vanguard of the terror culture movement), all in black, perusing magazine racks of obscure, photocopied magazines on anarchism, obscenity, terror, and, of course, every conceivable brand of rock and roll. On the front rack are some of the best sellers: *The Atrocity Exhibition*, *The Torture Garden*, *Assassination Rhapsody*, *Freaks*, and *Hannibal Lecter, My Father*. Others include the complete Marquis de Sade collection, *Venus in Furs* by Sacher-Masoch, *Macho Sluts*, and, perching sheepishly, John Bradshaw's New Age self-help guide, *Iron John*. Readers sit surrounding a rack full of *Singin' Dose Anti-Psychotic Blues #6*, published in Brooklyn. This magazine, edited by "Frank," espouses mass murder (not serial killing, which Frank calls "weak") and has sections on murder technique and records (17 at McDonald's in Fresno). A longer-haired customer wearing a tweed trenchcoat tells me he enjoys Frank's writing. "I got into this stuff through photography. The interesting thing is that it keeps going and going. It's a lifestyle; it's something you have to do. I'm trying to do crime stuff now. Freelance. Like Weegee [the *nom de guerre* for Prohibition-era crime photographer Arthur Fellig] only more real."

Body Piercing

Another front of terror culture's "war on everything" involves body mutilations—disfiguring, scarring, and piercing. In its upstairs quarters on 5th Avenue, the Gauntlet is the premiere piercing center in New York. In its first three months it performed

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over 800 piercings (roughly 14 a day). Its offices are inoffensive and even stylish. Minimalist couches and glass counters sit atop polished hardwood floors. The first tip that this is not another trendy midtown hair boutique comes from the contents of the counter. It is filled with metal rings obviously not designed for ears. Also lying under the glass are needles, surgical forceps, jawbones, neo-Egyptian hieroglyphs depicting genital mutilations, and what looks like chainmail. On the other side of the room is a table containing copies of *P.F.I.Q. (Piercing Fans International Quarterly)*, a sort of combination hard-core pornography/how-to guide for amateur piercers. Also on the table is *Androgyny* and a copy of a tattoo magazine, *Body Art*. The piercing rooms at the Gauntlet are extremely clean, better looking than the average doctor's office. It has been inspected twice by the Health Department, passing easily both times. The piercing is done without anesthesia. Some piercings hurt no more than installing an earring. Others, Dan says, are "out of body experiences."

Dan, the skin-headed, multi-pierced, highly tattooed manager and master piercer at the Gauntlet ("the only fully qualified piercer in town"), gave an assessment of the piercing movement. "Most of the piercings we do are the three N's: noses, nipples, and navels. But we'll do almost anything—genitals, eyebrows, whatever." Dan says that his clientele is not all alternative. "We get all different types of people from all walks of life, from Wall Street to the East Village."

Publication and Performance

Terror culture even has its own publication. *Semiotext(e)* is the definitive guide to terror culture. *Semiotext(e)* is published by Autonomedia, a co-operative run by Columbia University's Jim Fleming and Sylvère Lotringer. It is headquartered in the French Department of Columbia University, although it has recently expanded to additional offices in Brooklyn. In 1978, Lotringer, co-editor and French professor, decided to change the focus of the magazine, to make it more "relevant." Thus *Semiotext(e)* in its current incarnation is, according to Adam Parfrey, editor of *Apocalypse Culture*, "kinda anarchistic, heretic, post-punk, post-situationalist, cutting edge subversive-type stuff."

I met Jim Fleming in the old factory building in Brooklyn which houses *Semiotext(e)* and, incidentally, serves as Fleming's home. Fleming came aboard in 1979, shortly after the decision to refocus the magazine. Topics covered by the magazine include animal sex, child sex, morbid sex, violent sex, and the cryptically named "critical sex." The schizo issue celebrated schizophrenia and included lyrics from the punk rock song *Teenage Lobotomy* and the Boston Declaration of Psychiatric Oppression. The magazine's writers include a who's-who of the avant-garde: John Cage, Jacques Derrida, Michel Foucault, Kathy Ackter, Phillip Glass, and William Borroughs. Recent issues of *Semiotext(e)* have sold more than 30,000 copies.

As far as avant-garde art goes, preeminent in the creation of terror culture was National Endowment for the Arts "problem child" Karen Finley. Finley's often federally funded performance art has been distinguished by Artforum magazine as "obscenity in its purest form."[6] In her taxpayer-financed act Finley smears food into her genitals and defecates on stage.[7] Finley's show includes descriptions of violent and perverse sex acts with priests, children, relatives, and the handicapped.[8]

Following Finley's lead, former pornography performer Annie Sprinkle now does her thing in artistic settings such as New York's avant-garde and federally funded performance space, The Kitchen.[9] The Kitchen also featured the extremely violent pornographic art films of Richard Kern, best known for his *Death Trip* films.[10] These performances graphically illustrate the terror culture agenda. These artists violently attack the idea of value, championing anti-value. They do not claim that what they do is not pornographic or obscene. Nor do they claim it is beautiful. It is nihilist, trying to

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tear down the dominant culture at all costs, attacking all fronts at once.

And the nihilist project is working. One can see its effectiveness clearly while sitting in the Life Cafe at 10th and B at 2 a.m. on a Friday night. The Life is a favorite New York University hangout. (New York University, especially its Cinema Studies program, attracts many aspiring nihilists.)

Terror culture is taking hold in the cities—and is spreading to the suburbs and small towns. It wreaks moral and physical death. It does not take psychological expertise to realize that immersing oneself in pictures of mutilated children, hard-core pornography, and self-mutilation is not conducive to a healthy mental state.

Ominous Parallel

Much of the experience of modern-day New York echoes another metropolis, another time. Consider the impressions of a local writer describing the hip part of town:

> . . . it was a den of unabashed perversity; one went for instance to night spots . . . to watch men in drag dance together . . . or . . . for a glimpse of lesbian sex chez soi. . . . If it was a bout of whipping you wanted, the whores parading around . . . would gratify your desire. They wore high, bright-red riding-boots as an advertisement for their specialty, and some used to carry short whips in order to narrow any margin of doubt to a minimum.[11]

This was not last week's New York City, but a description of Weimar Germany circa 1928. The cultural parallels are striking in their sheer extremity. A recent documentary of New York's underground scene, *Mondo New York*, has been compared to Weimar decadence,[12] and there can be little grounds to argue. The question that confronts one is how can two places, so separated by their respective histories, have so many similarities? Weimar Germany followed a tremendous military defeat and evolved against a backdrop of omnipresent political anarchy. Modern-day Manhattan (with all its problems), by contrasts, enjoys relative social stability, a comparatively high standard of living, and, is still the foremost city of the world's only superpower. Yet Weimar and New York, despite their differences, share a common philosophical milieu: philosophical relativism.

The troops of England, France, and the United States, could not harm Germany as greatly as the Berlin relativists. In Manhattan the relativists have had over a quarter century to work.

Unfortunately, we all know the end to the Weimar story. That is not to say that our destiny will be the same. It is merely to say that the risk exists, parallel cultural phenomena suggest parallel political development. Indeed, the United States may have already exceeded the Weimar decadence and the concomitant demoralization of our common culture; at least in Weimar, no one proposed federal funding of the anti-culture. □

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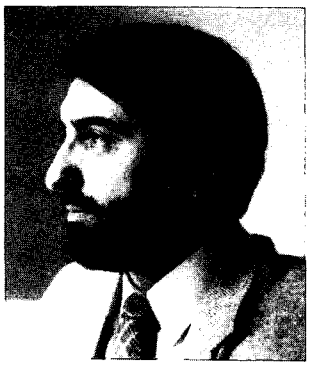

The "Root Causes" of Crime

Since 1960, per capita crime rates have more than tripled, while violent crime rates have nearly quintupled. By any measure, we live in a nation much less safe than that in which our parents grew up.

This simply cries out for an explanation. What in our modern society could possibly account for the sudden and explosive growth in force, fraud, and coercion?

Liberals typically posit socio-economic factors, such as poverty. Yet how can we attribute the rising tide of violence to rising poverty, when the periods of fastest crime growth have been during times of rapidly rising American wealth?

This popular "explanation" also fails on comparative grounds. Why is the richest nation on earth experiencing increases in predatory behavior that vastly exceed crime rates in much poorer nations? Why now, at a time of relative abundance and wealth, instead of during impoverished times past—say, during our Great Depression? And why after decades of dumping trillions of dollars into programs to eradicate privation, hunger, illiteracy, insecurity, disease, homelessness—the alleged "root causes" of crime?

Liberal explanations for crime that blame psychological or biological factors also fall flat. Why, for example, would there have been an abrupt leap in mental illness or genetic defects starting in 1962, when crime rates began to take off?

However, I must also challenge a common conservative explanation for rising crime: blaming it on the welfare state.

Though a governmental "safety net" of sorts has existed since the New Deal, the modern American welfare state wasn't enacted into law until the Great Society, and didn't begin to make its impact felt until the end of the 1960s. Yet crime rates began to soar *before* that—in the *early* 1960s. How can we attribute rising crime to a welfare state which didn't then exist?

Second, criminal behavior patterns start in youth, peaking in the late teen years. Whatever caused crime to explode in the 1960s would have had to been planted in young people during their formative years: in the 1950s. Where was the 1950s welfare state?

Third, many nations have had welfare states far longer than America, yet have crime rates far lower than ours. Why?

Finally, U.S. crime rates have begun in recent years to level out, even decline a bit. Has there been any corresponding decline in welfare statism to "cause" this? Clearly not.

These liberal and conservative explanations for criminality share a common root: they blame factors *outside* the criminal himself. Liberals say "poverty made him do it." Conservatives say "welfare checks made him do it." Both share the false premise of economic determinism.

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Criminal Justice? The Legal System Versus Individual Responsibility, *edited by Mr. Bidinotto and published by FEE, is available at $29.95 in cloth and $19.95 in paperback.*

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It is more fruitful to ask not "What causes crime?" but "What causes us *not* to commit crimes?" Social scientists posit two reasons: what they refer to as "external and internal constraints on behavior."

External constraints are deterrents. We don't commit crimes for fear of negative consequences, or punishments. Internal constraints, by contrast, are what we used to call "conscience." Most people accept certain moral standards; and when we violate those standards, we feel guilty about it. Our guilt feelings inhibit us from committing crimes—even when we think we can get away with them.

My view—spelled out in *Criminal Justice?*—is that crime has increased because of a systematic erosion in recent decades of *both* external *and* internal constraints on behavior. Deterrence has been weakened, while conscience has been deadened.

Consider, first, the undermining of deterrence. For half a century, utilitarian prescriptions for crime control amounted to giving endless "second chances" to juvenile criminals, repeated probationary sentences to adult felons, and speedy releases to the relative few who landed behind bars.

In 1949 the U.S. Supreme Court declared that retribution was "no longer the dominant objective of the criminal law," but should be replaced by "reformation and rehabilitation." Former Attorney General Ramsey Clark, in his influential 1970 book, *Crime in America*, declared that "Punishment as an end in itself is itself a crime in our times. . . . Rehabilitation must be the goal of modern corrections. Every other consideration should be subordinated to it."

And so it was. The odds of punishment for a given crime have fallen sharply over the past 30 years. Today, a person who commits a serious crime has a better than 98 percent chance of avoiding prison. And thanks to early parole and generous "good time" allowances, the typical inmate serves only a third of his court-imposed sentence.

The undermining of external constraints is only a part of the problem. More important is the erosion of internal constraints.

Most of us go about our daily business with a secure sense of routine. We walk past co-workers, sit with family members, wait in grocery store lines, seldom giving a thought to our personal safety. But imagine what it would be like to live in a world in which all these people suddenly, inexplicably, violently turned on you. In such a jungle, human life would become impossible. We would live like animals; our operative premise would no longer be "live and let live," but "kill or be killed."

We have not yet reached that stage, but the signs of social deterioration are unmistakable (see my March column, "Cultural Pollution"). More and more people act like speeding vehicles without steering wheels or brakes, leaving in their wake a growing trail of bloodshed and destruction.

A moral code is the source of "internal constraints on behavior." It is the rudder of any culture, which keeps it from crashing against the shoals of violence, and sinking into chaos. Yet modern intellectuals, wedded to relativism, have not only abandoned the helm of moral leadership: they assault anyone who dares to assume it. Their normative vandalism has been so complete that today, even to use words such as "morality," "conscience," or "virtue," invites mockery and the rolling of eyes.

These intellectuals have virtually obliterated all external and internal constraints. As utilitarians, they have undermined deterrence. As relativists, they have eliminated guilt. They have thus unleashed the sociopaths we see around us—savages who act with impunity, and without conscience.

We rightfully expect our justice system to impose external constraints on those lacking internal constraints. But we can never hire enough police, or build enough prisons, if our underlying *moral* crisis is not addressed. The real roots of criminality lie in the moral abdication occurring in our homes, communities, and institutions.

Restoring moral direction is not a job we dare delegate to politicians. Rather, if our culture is to survive, we ourselves must begin to uphold, fight for, and inculcate the values and standards upon which any civilization rests. □

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Affirmative Action

In the strange world of politics and power, one agency of government inflicts economic harm on the public, another seeks to alleviate it. One raises the costs of construction through labor laws or zoning restrictions, another seeks to offset the raises through construction grants, low–interest loans, and subsidized rents. Federal legislation erects employment barriers for minorities, such as the Davis–Bacon Act and minimum wage laws, other programs seek to give assistance to the victims. The Federal Reserve System depreciates the dollar through inflation and credit expansion, other departments mean to rescue it by regulating and controlling the people.

Affirmative Action does both; it inflicts economic harm and then seeks to alleviate it. It professes to promote the economic conditions and opportunities of so–called underprivileged minorities and simultaneously erects new, formidable barriers for the people it sets out to benefit. It bestows special favors through the apparatus of politics but also handicaps its beneficiaries through economic restrictions and mandates.

The civil rights legislation of the 1960s launched the Affirmative Action program. The Civil Rights Act of 1964 granted protected status according to race and sex; the Age Discrimination in Employment Act of 1967 extended the protection to the elderly. Later amendments to the act further broadened government authority in all matters of discrimination. The 1964 Act created the Equal Employment Opportunity Commission (EEOC) and charged it with investigating complaints. The Commission cannot enforce its findings, but can ask the Department of Justice to sue a discriminating individual or firm. It receives and analyzes many thousands of complaints every year.

The EEOC budget is rising steadily, now exceeding $250 million a year. The rise can have only two explanations: either discrimination has grown worse since Affirmative Action was launched or the Commission is making a show of discrimination in order to justify its own bureaucratic growth. Whatever it may be, the agents of EEOC are personally interested in an aggravation of discrimination.

Commission guidelines aim to ensure that every employer hire a proper percentage of minority people that comprise the labor force in the community. Where the population is preponderantly black, a company is expected to employ a corresponding percentage of blacks; in a Spanish–speaking locale it must engage the proper percentage of Hispanic workers.

EEOC policies accomplish the very opposite of what they set out to achieve. By forcing employers to hire workers according to ethnicity rather than productivity EEOC created an exodus of business from the inner cities. After all,

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there are few skilled workers in the inner cities but many uneducated and untrained minority workers subsisting on public assistance. To escape from EEOC mandates, many companies promptly located new plants and stores in largely white communities. Companies with inner–city facilities quickly close them as soon as they suffer losses, blaming old equipment or foreign competition. Every observer knows full well that they are escaping the labor mandates of EEOC.

The Commission inflicts immeasurable economic harm also on women while it professes to defend and promote their interests. It spearheads the movement of "comparable worth," which merely is a new version of the "just price" doctrine of ages past. Rejecting most market considerations of income, it elaborates rights and privileges defined and granted by legislators and regulators.

In the labor market a house painter or plumber may have a higher income than a librarian with a Master's degree. In the judgment of consumers, they render more valuable services than the librarian. But, according to EEOC, this is sexual discrimination! The Commission ranks jobs and income according to a complicated point system based on years of schooling and training, the number of academic degrees, hours of work, etc. The points then are run through a computer which invariably arrives at sexual discrimination and employer greed and guilt.

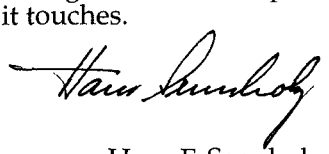
EEOC policies obviously rest on an old elitist contempt for manual labor, especially dirty and dangerous labor, and an astonishing bias for college degrees. The economic world of individual freedom and the private property order actually does not pay for academic degrees, it only rewards services rendered. Whenever education makes a person more productive in rendering marketable services, it tends to yield higher personal incomes. After many years of training, the heart surgeon is likely to earn a good income. Whenever education does not impart productivity and usefulness, it may make a person learned and wise, but does not assure a high income. The brilliant scholar of Sanskrit or the astronomer studying the Aurora Borealis may not improve his earnings capacity. In a free society he is free to pursue his interests to his heart's content, but he cannot command an income similar to that of the surgeon who is saving human lives.

Many scholars and scientists who choose and love their lifestyles covet the incomes of others. Envy and covetousness make them join the enemies of the market order and call for redistribution of other people's income by political force. Lamenting the "unfair" distribution of incomes, some readily condemn the enterprise system while they extol the virtues of the political command system.

Affirmative Action inflicts harm on the elderly. The Employment Retirement Income Security Act of 1974 (ERISA) meant to make it easier for elderly people to qualify for pensions. Unfortunately, as in all cases of political interference in economic life, the Act brought about the very opposite of what it meant to achieve. Its costly funding requirements immediately caused the liquidation of nearly 30 percent of all private pension plans and prevented the launching of countless others. ERISA rules make employers think twice before they launch a pension program. After all, pension funds now may seize up to 30 percent of a company's net worth to satisfy employee claims. Pension liabilities have the same status as tax liens, they are senior to all other claims.

As ERISA mandates raise the cost of labor, they tend to depress take-home pay and fringe benefits. If these are rigid and cost adjustments are resisted or prevented for any reason, the ERISA mandates actually cause unemployment. For many elderly workers ERISA actually erected another barrier to employment, the very springhead of pensions.

False labor doctrines have given rise to the Affirmative Action program. Millions of Americans whom it was supposed to benefit are its primary victims. Their suffering manifests anew that political power wrings much evil. It pollutes whatever it touches.



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THE FREEMAN
IDEAS ON LIBERTY

A Walk on the Supply Side

by Raymond J. Keating

In the movie *Ferris Bueller's Day Off*, Ben Stein portrayed a high school teacher droning on about supply-side economics while students fell asleep and even drooled in their seats. Critics of supply-side economics must relish this and other pop-culture references, believing them to buttress their own view of supply-side as a kind of "pop economics."

However, supply-side economics is not just a recent fad popularized by *The Wall Street Journal*'s editorial page and a small band of late-twentieth-century conservative economists. The historical roots of supply-side theory run deep. In fact, the seeds of supply-side thought were firmly planted by such classical economists as Adam Smith and Jean-Baptiste Say, with strands of supply-side ideas dating back literally thousands of years. As nations debate and embark on economic changes taking us into the next century, it is crucial to understand what "supply-side economics" actually means.

Supply-side economics has been defined and ill-defined many times over the past two decades. Often, it seems that supply-siders themselves fail to agree on a definition. Economist Norman Ture cut through much of the morass surrounding supply-side economics, compactly summarizing the subject as follows: "Supply-side economics is merely the application of price theory—so-called 'microeconomics'—in the analysis of problems concerning economic aggregates—so-called 'macroeconomics.'"[1] Though brief, Ture's statement captured the essence of supply-side economics.

I would expand the definition of supply-side economics a bit to the following: *Supply-side economics places supply over demand in the hierarchy of economics, and therefore deals with enhancing economic production, efficiency, and growth within the context of the marketplace; largely—but not exclusively—focusing on relative prices, such as incentives for working, saving, investing, and risk-taking.* While supply-side tax policy has been highlighted for the past two decades, the supply-side school's purview is much wider.

The Pre-Eminence of Supply Over Demand

The phrase "supply creates its own demand" is known as Say's Law, after the nineteenth-century French economist Jean-Baptiste Say, and constitutes a central tenet of supply-side economics. The idea undergirding Say's Law is that supply comes before demand in the economic pecking order, if you will. The fundamental point remains that nothing can be demanded before it is first offered, created, or invented—that is, before it has been supplied—by someone. In addition, no one can *legitimately* demand something before first supplying a product or service of value to others.

Mr. Keating, the guest editor of this month's issue of The Freeman, *is chief economist at the Small Business Survival Foundation, and partner with Northeast Economics and Consulting.*

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Say, however, never actually wrote in his *Treatise on Political Economy* that "supply creates its own demand." He observed that "products are always bought ultimately with products."[2]

Understanding that products are bought with products, that one must produce before one can demand, any economy that emphasizes demand over supply is destined to be confronted with stagnation and relative decline, as the size of government inevitably increases, the scope of wealth distribution efforts expand, and the economy slows as creativity, innovation, and risk-taking diminish. Say himself asserted that "the encouragement of mere consumption is no benefit to commerce; for the difficulty lies in supplying the means, not in stimulating the desire of consumption; and we have seen that production alone furnishes those means. Thus, it is the aim of good government to stimulate production, of bad government to encourage consumption."[3]

Say's Law not only provides a foundation for the "equilibrium in most economic models and a source of the stability of capitalism," as supply-sider George Gilder has noted, but also explains how economic growth occurs.[4] Gilder observed: "As the driving force of economic growth, Say's law exalts the creativity of suppliers over the wants and needs of demanders or consumers. As entrepreneurs invent new things and learn how to make them more efficiently, unit costs and prices drop and goods become more attractive. As goods become more affordable to a wider public, more people work to acquire them by creating goods to exchange. These new suppliers both provide and acquire new wealth at ever lower expense."[5] That is, supply—work, investment, entrepreneurship, and risk-taking—drives economic growth.

Norman Ture identified the sheer absurdity of a contrary economic theory purporting that government fine tuning or enhancement of aggregate demand fosters economic growth. Ture laid out a devastating supply-side criticism of Keynesian demand management: "The prevailing view that government actions do directly affect aggregate income derives from perceiving these actions as impacting initially and directly on aggregate demand, via effects on disposable income, the changes in which are deemed to result directly in changes in total production. The supply-side analysis, on the other hand, holds that government actions have no direct initial impact on real aggregate demand and, indeed, affect nominal aggregate demand only as a consequence of changes in the stock of money. Changes in real aggregate demand, to be sure, would elicit increases in total output. The pertinent question is how changes in real aggregate demand can occur without a preceding change in total output. By definition, aggregate demand is the sum of purchases of all types by all economic entities—governments, businesses, households, etc. Also, by definition, these outlays must exactly equal aggregate income which in turn, at every moment in time, must just equal the value of aggregate output. Changes in real income, therefore, occur only as changes in output occur. And changes in output occur only as a result of changes in the amount of production inputs or in the intensity or efficiency of their use. To have a first-order effect on income, therefore, government actions would have to alter directly the amount or effectiveness of production inputs committed to production. But government actions, in and of themselves, do not change the aggregate amount of production resources available in the economy or their productivity. Changes in the amount of production inputs committed to production will result only if the real rewards for their use, i.e., the real price received per unit of input, is changed."[6]

That is, as Say noted, products ultimately are purchased with products. Growth occurs when supply-oriented incentives are enhanced.

Entrepreneurship

Supply-side economics returns the entrepreneur's role to the center of economic theory. After all, if, as Ture asserts, "changes in output occur only as a result

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of changes in the amount of production inputs or in the intensity or efficiency of their use," then the entrepreneur must take center stage as he is the agent of innovation and creativity that increases inputs and/or efficiency.

The modern-day Keynesian school's focus on government-attempted adjustments in aggregate demand naturally ignores the critical aspect of entrepreneurship in the economy. In addition, the increasing mathematical nature of economics as an academic discipline has left little room for the entrepreneur's roles as innovator and bearer of risk.

This focus on entrepreneurship perhaps best illustrates the difference between supply-side economists and industrial policy economists. A free-market economy leaves most economic decisions to individuals operating in the private sector, rather than government bureaucrats and/or elected officials, as is the case with industrial policy and its more extreme cousin, socialism. While both supply-side and industrial policy economists largely concern themselves with supply-related issues (e.g., investment, production, etc.), the supply-side school of economic thought operates within the wider intellectual framework of free-market economics, knowing that production for the sake of production is fruitless. Production must meet current or create new demands. Value must be created. And supply-side economists recognize that the government lacks the requisite experience, knowledge, and incentives to make resource allocation decisions or to create value.

The critical role of the entrepreneur in the economy is to see added value where others have failed to do so—to enhance production and/or efficiency. That is, to fulfill the essence of Say's Law—that supply creates demand. In turn, one can identify numerous types of entrepreneurship. The Schumpeterian entrepreneur, named for economist Joseph Schumpeter and his notion of "creative destruction," offers innovations or inventions that can transform entire industries and economies. Other entrepreneurs offer improvements in the way particular firms perform through, perhaps, different management or production structures; while still others simply see better ways of doing things and start their own businesses. Additional entrepreneurs are at work in the investment community. For example, an investment banker or corporate raider might see added value through a proposed corporate merger or takeover. Then there are the venture capitalists willing to risk their own investment dollars supporting an idea, invention, innovation, or new business.

George Gilder articulated the importance of returning the entrepreneur to the economist's center stage: "Economic recovery depends on the resurrection of entrepreneurs. This resurrection cannot fully and durably occur until the ultimate arbiters of economic policy—the economists—resurrect entrepreneurship in their own influential theories. The contrary vision of capitalism without capitalists springs in part from a fundamental error of economic thought, drastically overrating the importance of physical capital formation and other quantitative measures of economic activity and drastically underestimating the decisive and controlling importance of entrepreneurial creativity."[7]

Relative Prices and Incentives

As Norman Ture noted, supply-side economic analysis is largely microeconomic in nature, i.e., supply side in many ways equates to price theory. Price theory deals with the allocation of resources among different uses, the price of one item relative to another.[8] In particular, supply-side economists focus on the relative prices of work versus leisure, saving and/or investment vs. consumption, risk-taking versus risk avoidance, and productive, market-based activities versus activities based on tax avoidance or government fiat. As a result, we see the great supply-side emphasis on marginal tax rates—or the tax on the next dollar earned—more so than on average tax rates.

Supply-side economists argue, for example, that high marginal income tax rates raise the cost of additional work or work effort as

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compared to leisure. Higher tax rates also make it cheaper for an individual to undertake non-taxable, do-it-yourself work, like painting one's own house, rather than performing income-generating, taxable work while hiring a house painter. Under these circumstances, the benefits of division of labor are lost to the economy. The returns of tax avoidance are enhanced as well.

A high marginal income tax rate regime also creates a clear bias in favor of consumption over saving and investment. Real and human capital investments become relatively more expensive versus consumption. Particularly worrisome, high tax rates, as well as onerous regulations, raise the relative price of such critical yet high-risk endeavors as entrepreneurship and venture capital investment. According to supply-side theory, the implications under such a regime can be severe. High-risk ventures require at least the opportunity for high returns. When such opportunities are diminished by governmental policies, a stultified economy results, with the relative security of, for example, employment in government or in a large corporation, and investment in government securities, being enhanced versus the potential returns on more risky, but more productive, entrepreneurial endeavors. Risk-taking, so crucial to economic growth, is discouraged by onerous taxes and regulations.

The full impact of relative prices on employment is captured in what supply-side economists refer to as the *tax wedge*. In essence, the tax wedge is the difference between the total cost to an employer for an employee, and the actual take-home pay of that employee. Taxes, regulations, and government mandates constitute the tax wedge. A large tax wedge significantly raises the price of labor relative to capital. Concurrently, the tax wedge can diminish incentives for employees to accept overtime; boost employee compensation demands; and/or narrow the gap between take-home pay and government benefits (e.g., welfare or unemployment compensation) for some workers.

These relative price/incentive arguments fall under the economists' label of "substitution effects." That is, as the costs of productive endeavors—such as working, investment, and risk-taking—decline as marginal tax rates are reduced, for example, the incentives to substitute these activities for leisure, consumption, and tax avoidance are enhanced. *Under such a scenario, the opportunity costs of not working, investing, or risk-taking increase.*

Other economists have claimed that just the opposite occurs under a tax-cut scenario, that individuals will choose to paradoxically work or invest less. These economists essentially claim that the income effect takes precedence over the substitution effect. The income effect argument states that individuals have a targeted level of income, and a tax cut allows them to reach that target by working less. Substantive problems arise with such an argument: (1) It not only nullifies supply-side, relative-price arguments, but Keynesian demand-management policies as well. Keynesian arguments that more government spending increases aggregate demand and therefore economic growth, falls prey to the same income effect argument. Individuals would work less, and GDP and income would fall; (2) If the income effect were to hold in general, that would mean that ever-higher marginal income tax rates should induce ever-increasing levels of work and investment. Or, under the contrary scenario of tax reductions, as the price of work, saving, or investing falls, individuals choose to work, save, and invest less. *In essence, as supply-side economist Paul Craig Roberts has noted, income becomes an inferior good.*

Roberts identified the full implication of the income effect argument: "In economics, any time the 'income effect' works counter to the 'substitution effect,' we have the relatively rare case of what is called an 'inferior good' (i.e., people purchase less of it as their income rises). Since income is command over all goods, [the income effect] argument implies that all goods are inferior goods: A tax cut will cause people to purchase only more leisure, not more income (i.e., goods)."[9] It is difficult to muster a

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more devastating counter-argument to the income-effect criticism of supply-side economics than this inferior goods point made by Roberts.

Inflation as a Monetary Phenomenon

Price stability is a paramount concern of supply-side economists. After all, inflation creates numerous economic woes. It acts as a tax by whittling away at individuals' earnings, savings, and investments. Inflation raises interest rates. If income tax rates are not indexed, inflation pushes people into higher tax brackets without any real increases in income. Also, inflation weakens the international value of a currency, resulting in capital flight and economic stagnation. In the end, inflation is a clandestine tax that damages economic growth and opportunity.

Supply-side economists agree with most other free-market economists on the fact that inflation is a monetary phenomenon, and not a result of too much employment and economic growth, as today's Keynesian economists argue. For supply-siders, the classic definition of inflation holds firm: too much money chasing too few goods. So contrary to Keynesian thinking, supply-side economists will argue that expanded production and economic growth actually act as an inflation remedy.

International Trade, Investment, and Currency Devaluation

Supply-side economists are exclusively, but by no means uniquely, free traders. Like most other schools of economic thought, supply-side subscribes to the notion of Ricardian comparative advantage. From a supply-side view, the lowering of tariffs and other trade barriers expands markets and opportunities, promotes competition, and fosters economic growth.

Also, supply-side economists extol the benefits of exchange-rate stability. Why? Exchange rate volatility creates uncertainty in terms of international trade and investment decisions. Supply-siders would agree with Adam Smith's observation that "a commodity which is itself continually varying in its own value, can never be an accurate measure of the value of other commodities."[10] Such uncertainty discourages international investment. Supply-side economists argue that this international uncertainty exerts upward pressures on interest rates, as investors seek to compensate for added risks, most prominent being government devaluation.

Mexico's recent devaluation provides a clear example of the woes of devaluation. Generally, nations will devalue their currencies versus other currencies in a misguided and futile effort to manipulate the terms and balance of trade. Hence exports are cheaper to their trading partners, and their own imports more expensive.

This neo-mercantilist fantasy suffers from two problems. First is that products are still purchased with other products, so any advantage derived from exchange-rate manipulation will be short-lived until individuals re-adjust their currency terms of trade—ensuring that if two bottles of wine traded for one pair of shoes before devaluation, the same trade could be made eventually after devaluation. The only way to really alter such a transaction is by increasing production, improving efficiency, or changing tastes. Second, this short-term "advantage" is obliterated by inflation, capital flight, and economic stagnation. Huge swings in the value of currencies make it difficult, if not impossible, for individuals to make any long-range decisions regarding international investment.

General View of Government

As already noted, supply-side economics falls under the broader category of free-market economics. Therefore, supply-siders hold the same skepticism of government as do their free-market cousins, such as monetarists and Austrian economists.

However, various supply-siders have been criticized by some of these free-market cousins for not focusing *enough* attention on

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government spending. Such criticisms may apply to certain individuals, but cannot be applied to the general supply-side school of economic thought.

In fact, devoid of proper incentives, government is viewed by supply-side economists as inherently wasteful. In essence, supply-siders view government as generally unable to produce anything of value. Government can redistribute; it surely can destroy; and when functioning adequately, it can protect; but government remains unable to create.

Therefore, supply-side economists concern themselves with the overall size of government. In fact, in the supply-side view, the size of government generally takes precedence over concerns about, for example, the size of a nation's budget deficit. Supply-side economics argues that what primarily matters is the total amount of resources being diverted away from productive private-sector ventures to generally unproductive government undertakings. Then supply-side economists evaluate the method for financing those government expenditures. The relative shares of borrowing versus taxing are evaluated according to the respective marginal costs to the economy.

In particular, supply-side economists view government social-welfare programs with a wary eye, not only due to the amount of waste associated with such programs, but more importantly, due to the perverse incentives such programs establish. Of concern is the fact that the welfare state breaks the key supply-side principle of supply preceding or creating demand. The welfare state allows an individual to demand *without* first supplying a marketable good or service—flying in the face of the basic requirement for a prosperous economy and society according to supply-side theory, that "products are bought ultimately with other products." So, we have a situation where an individual being subsidized through government welfare is buying products with products produced by others. This system provides disincentives for the individual on welfare to undertake productive activities, while also establishing disincentives for those individuals providing the welfare subsidies, as they receive less return for their work, investment, or risk-taking. Also under such a system, not only are producers confronted with higher taxes, but the marginal tax rate—including the combined loss of government benefits plus the tax rate on income—confronted by welfare recipients thinking of moving off welfare can be considerable, even in excess of 100 percent.

Lastly, supply-side economists naturally view the government's role of protecting life, limb, and property as essential to a healthy economy and society. Devoid of such protections, absolutely no reason exists for individuals to move beyond mere subsistence levels of production.

The Supply-Side Difference

What is the fundamental difference between economists and schools of economic thought? The late economic journalist Warren Brookes wrote: "Since economic thought first became formalized over two centuries ago, there have been essentially two different views about wealth. One view, first defined by Adam Smith and Jean-Baptiste Say, is that wealth is primarily metaphysical, the result of ideas, imagination, innovation, and individual creativity, and is therefore, relatively speaking, unlimited, susceptible to great growth and development. The other, espoused by Thomas Malthus and Karl Marx, contends that wealth is essentially and primarily physical, and therefore ultimately finite."[11]

Though I risk upsetting many economists who shun the "supply-side" label, broadly, I think the former can be categorized as supply-siders, the latter wear the blinders of demand-side economics. I do not make such an assertion lightly.

For example, it was the great Austrian economist Ludwig von Mises who observed in his *Human Action*: "Capital levies, inheritance and estate taxes, and income taxes are . . . self-defeating if carried to extremes." Mises went on to explain:

> It is one of the characteristic features of the market economy that the govern-

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ment does not interfere with the market phenomena and that its technical apparatus is so small that its maintenance absorbs only a modest fraction of the total sum of the individual citizens' income. Then taxes are an appropriate vehicle for providing the funds needed by the government. They are appropriate because they are low and do not perceptibly disarrange production and consumption. If taxes grow beyond a moderate limit, they cease to be taxes and turn into devices for the destruction of the market economy. . . .

[T]he true crux of the taxation issue is to be seen in the paradox that the more taxes increase, the more they undermine the market economy and concomitantly the system of taxation itself. Thus, the fact becomes manifest that ultimately the preservation of private property and confiscatory measures are incompatible. Every specific tax, as well as a nation's whole tax system, becomes self-defeating above a certain height of the rates.[12]

No supply-side economist could have put the argument better. □

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10. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Volume 1 (Chicago: University of Chicago Press, 1976), p. 37.
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12. Ludwig von Mises (Chicago: Contemporary Books, 1966), pp. 740–741.

The Minimum Wage Law

by Raphael G. Kazmann

The minimum wage law is based on the assumption that some minimum hourly rate of pay should be legislated so that people will have a minimum income to support themselves and their families. The law makes it illegal for an employer to pay an hourly rate lower than the minimum wage specified by the Congress. In line with this reasoning, the higher the minimum wage, the more prosperous the workers will be. If this is so, why not set the minimum hourly wage at $20 so that everyone will be better off? The proponents of the minimum wage have avoided taking this step.

A basic law of economics states that the higher the price of something, be it a commodity or labor, the smaller the quantity demanded. In simple English: the higher the price, the smaller the sales. When a minimum wage is established at a level above the one that would be determined by market forces, employment opportunities are usually reduced for the least productive workers because their services are priced too high for the market. In fact as the minimum

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wage is raised, even some workers who had been employed are discharged simply because their services do not produce value in excess of their wages (plus Social Security taxes, vacations, medical insurance, and so on). We can deduce that the principal impact of minimum wage legislation is to reduce the opportunities for useful employment by the potentially least productive individuals. Thus the most economically vulnerable portion of the population is being prevented by the government from becoming self-sustaining. This outcome may not have been anticipated by the well-intentioned legislators who passed the minimum wage law as part of the Fair Labor Standards Act of 1938.

The enforcement of minimum wage legislation accomplishes two things: (1) it makes low-skilled labor more expensive than it would otherwise be, thus fostering labor-saving devices that higher priced labor creates (and raising the prices in the affected industries), and (2) it reduces the numbers of young and low-skilled workers entering the labor market where training and apprenticeship would later permit the trainee to obtain a better, higher paying job.

Martin Feldstein described matters clearly: "The minimum wage law has an unambiguously harmful effect on some young workers. Even if an individual were willing to 'buy' on-the-job training by taking a very low wage for six months or a year, the minimum wage would not permit him to do so. . . . For the disadvantaged, the minimum wage law may have the ironic effect of lowering lifetime incomes by a very large amount." (*The Public Interest*, Fall 1973)

Civil Rights legislation in its inception was most benign by removing legal barriers to the employment of blacks and other minorities. Inexplicably, however, it ignored the impact of minimum wage laws on the employment of young people just entering the labor force, particularly on black teenagers. Yet the empirical evidence illustrates the trends, even though any statistical evidence that pertains to the entire country is likely to contain inaccuracies of detail. Since 1938, when the minimum was set at $0.25 per hour, the hourly minimum has risen until,

Comparison of Youth and Unemployment Rates by Race (males)

Year	Min. Wage	General	White 16–17	Black 16–17
1948		3.8	10.2	9.4
1949		5.9	13.4	15.8
1950	.75	5.3	13.4	12.1
1951		3.3	9.5	8.7
1952		3.0	10.9	8.0
1953		2.9	8.9	8.3
1954		5.5	13.4	14.4
1955	1.00	4.4	11.3	13.4
1956		4.1	10.5	15.0
1957		4.3	11.5	18.4
1958		6.8	15.7	26.9
1959		5.5	14.0	25.2
1960		5.5	14.0	24.0
1961	1.15	6.7	15.7	26.8
1962		5.7	13.7	22.0
1963	1.25	5.7	15.9	27.3
1964		5.2	16.1	24.3
1965		4.5	12.9	23.3
1966		3.8	10.5	21.3
1967		3.8	10.7	23.9
1968		3.6	10.1	22.1
1969	1.30	3.5	10.0	21.4
1970		4.9	13.7	25.0
1971		5.6	15.1	28.8
1972		5.6	14.2	31.0
1973		4.9	12.3	27.0
1974	1.60	5.6	13.5	33.7
1975	1.80	8.5	18.3	38.1
1976	2.00	7.7	17.3	37.5
1977	2.20	7.0	15.0	39.2
1978	2.65	6.0	13.5	36.7
1979	2.90	6.8	13.9	34.2
1980	3.10	7.1	16.2	37.5
1981	3.35	7.7	17.9	40.7
1982		10.1	21.7	48.9
1983		9.9	20.2	48.8
1984		7.4	16.8	42.7
1985		7.2	16.5	41.0
1986		7.0	16.3	39.3
1987		6.2	15.5	34.4
1988		5.5	13.9	32.7
1989		5.3	13.7	31.9
1990	3.80	5.4	16.4	35.2
1991	4.25	6.3	18.1	49.8

Note: The minimum wage rates have been applied to increasingly larger segments of the working population, so the unemployment rates understate the effect of the minimum wage in decreasing the opportunities for first entrants to the labor force. Moreover, as the effect of inflation is to lower the real cost of the minimum wage, the unemployment rates of teenagers dropped between 1983 and 1989 by one third. Note the abrupt rise in unemployment as the minimum wage rose in 1990 and 1991.

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in 1981, it was fixed at $3.35; more recently it was increased, in stages, to $4.25 per hour. In 1988 it was 13.4 times what it was originally. Economists have computed that because of inflation the minimum hourly rate, expressed in 1938 dollars, has been between $0.56 and $0.59 since 1974. The coverage of industries subject to minimum wage laws has been extended: between 1967 and 1974, approximately 75 percent of private, non-agricultural workers were covered; since 1974, approximately 83 percent have been subject to its mandate.

The Impact on the Young

The effect of the minimum wage and the increase in the percentage of industry that it covers have had a significant, deleterious impact on the young worker. Between 1948 and 1955 the unemployment rate for young males was about 6 or 7 percentage points higher than the general rate of unemployment and there was no significant difference between the unemployment rates of blacks and whites. After 1955, when the minimum wage was raised sharply, not only did the difference between the general unemployment rate and that of the young white male rise to 9 or 10 percentage points, but the unemployment rate of black teenagers rose even more sharply reaching a differential of between 15 and 20 percentage points as compared to the general rate of unemployment.

After the increase of 1968, the difference between white teenagers and the general rate went up to from 10 to 12 percentage points; black teen-age unemployment rose still more. Since 1973 the unemployment rate for black teenagers has been from 25 to 35 percentage points above the general rate.

Walter Williams (*Policy Review*, Fall 1977), said: "The minimum wage gives firms effective economic incentive to seek to hire only the most productive employees, which means that firms are less willing to hire and/or train the least productive employee which includes teenagers and particularly minority teenagers. By holding all else constant, such as worker productivity, the minimum wage law gives firms incentive to indulge whatever racial preference that they may hold."

The table on page 380, adapted from one published by Walter Williams and supplemented by data from various publications of the Bureau of Labor Statistics, compares the general unemployment rate of males and the corresponding unemployment, by race, of young men 16–17 years of age. These are the people who have minimal skills and experience. The table shows when the outcomes discussed occurred.

The principal supporters of the minimum wage have been the labor unions and corporations that compete with the employers of teenagers. The unions know that when the minimum wage rises the wages of their members rise to maintain the differential between skilled and unskilled workers. The corporations in favor of it understand that the costs of their competitors will disproportionately increase as compared to their own.

It is difficult to understand why a government, ostensibly based on principles of democracy, can pass and enforce legislation that reduces opportunities for the most economically vulnerable segment of the population: black teenagers and white teenagers. From the standpoint of morality and equity, any legislation that makes it harder for teenagers with little skill or experience to enter the labor market should be unacceptable. As we have shown, the minimum wage law not only discriminates against young and inexperienced workers, it discriminates particularly against black youngsters. Not only should the minimum wage not be raised, it should be abolished. Democratic government can do no less. □

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THE FREEMAN
IDEAS ON LIBERTY

The Mushroom Wars

by Richard B. Coffman

Drive-by shootings, an abandoned car riddled with bullet holes, a man gunned down before he can pull his .45 caliber pistol. No, it is not gang warfare in an American inner city. These are the mushroom wars in the once peaceful forests of the Northwest.

Not so long ago mushroom picking was a somewhat quaint hobby of gentle folk who wandered the forests, enjoying an outing and picking a few mushrooms along the way. No more. These days the woods are full of aggressive pickers with mechanical trenchers. They dig up a mushroom field as fast as they can, then roar off to the next field in high-powered, four-wheel drive pick-ups.

The *Wall Street Journal* (May 11, 1993) reports that some pickers have made as much as $1,000 a day and that experts estimate about $50 million worth of mushrooms are coming out of the woods every year. But problems are developing. Pickers say their incomes are falling because of the fierce competition. Some mushroom sites have been so dug up and trampled down they may never be productive again, and the violence is heating up. Some pickers are staking out claims, and driving rivals off with gunfire. Forest wardens now wear flak jackets in the woods. Pickers have been robbed at gunpoint.

It should not be too surprising that all this sounds like the Wild West revisited. Many of the storied conflicts of the Old West had their source in the same problem which lies behind the mushroom wars. The problem is property rights. The mushroom fields of the Northwest are defined as common property, open to all comers. When valuable resources are free for the taking, takers will rush in. When valuable resources become private property through the "rule of capture," people will try to capture them as fast as possible. When a person has no rights to the property or its future resources, then there will be no conservation.

How the West Was Owned

The grazing lands of the West were originally common property. They were overstocked and overgrazed until the invention of barbed wire allowed the establishment of private property rights. The buffalo were hunted nearly to extinction because they too were common property. In early gold rushes the mining frontier outran the legal establishment, and claims were first established and protected by arms. Miners quickly recognized they were diverting too much time from the productive activity of gold mining into wasteful stealing of property and defending of property. They speedily organized into communities which defined private property rights, and stood ready to safeguard those rights. This allowed them to get on with the business of gold mining.

The mushroom grounds of the Northwest are found mainly on federal land. The government administers these lands as common property, just as public grazing land was

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administered as common property a hundred years ago. This caused no problems so long as there was little market demand for wild mushrooms. The small tribe of recreational pickers could pick to their heart's content without getting in one another's way, and without making a dent in the mushroom population. But now there is a big gourmet demand for wild mushrooms, not just in the United States, but in Europe and Japan as well. Prices have skyrocketed, and the mushroom rush is on.

Once mushrooms became a valuable resource, the familiar flaws of common property ownership came to the fore. Since the mushrooms were free for the taking, hordes of pickers rushed into the woods. If two pickers happened onto the same mushroom site, neither had a legal right to exclude the other. If they were peaceful folk they would compete through fast picking. Those who discovered mechanical trenchers could outpick those who worked by hand. Soon everyone invested in trenchers. Competition speeded up. Sites were quickly exploited once discovered. The picker who could get to the next site first had an advantage, hence the appearance on the scene of powerful, four-wheel-drive vehicles.

Of course, not all competition was peaceful. When competition takes place out of sight of the law there are always those willing to use violence to get an edge. Thus some mushroom claims are asserted through gunfire, just as were gold mining claims in the last century.

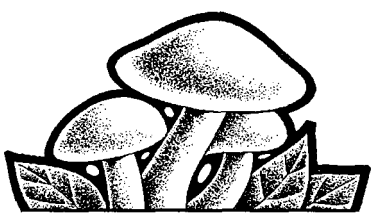
In high demand situations common property ownership wastes and degrades resources. There are too many mushroom pickers, using up too much time and effort to harvest the crop. The pickers have put too much investment into mechanical harvesters and fast trucks. Pickers harvest too fast, too completely, and too roughly, perhaps destroying mushroom sites in their haste.

None of this would happen if the mushroom grounds were private property. A profit-seeking private property owner would hold his costs down by picking systemically with smaller crews. There would be no need to rush from site to site, and thus no need for expensive transportation. Picking might well be done by hand, rather than with mechanical trenchers. Finally, the owner would want to leave mushroom sites in good condition so he could profit from harvesting them again and again in the future.

Unfortunately, it does not seem likely that the mushroom grounds will be converted to private property in the near future. Gold miners solved their common property problem by forming communities and establishing laws. But mushroom pickers are a footloose bunch who wander all over the West. They are not going to form communities. The open range was fenced in, creating private property. But the federal government is not going to allow privatization and fencing of mushroom grounds.

The government may try to regulate some aspects of mushroom harvesting to suppress undesirable behavior. A crackdown on gun play seems likely. Rich mushroom grounds might be allocated through a permit system to cut down on confrontations and overharvesting. Perhaps a ban on mechanical trenchers will be proposed. But most of these reforms will founder on enforcement difficulties. Infrequent patrols by forest bureaucrats are a poor substitute for the constant attention of a profit-seeking private owner.

Look for problems to continue in the mushroom grounds of the Northwest as long as the woods remain common property. □



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THE FREEMAN
IDEAS ON LIBERTY

Richard Cobden's Triumphant Crusade for Free Trade and Peace

by Jim Powell

The nineteenth century was the most peaceful period in modern history. There weren't any general wars between the fall of Napoleon in 1815 and the outbreak of World War I in 1914. This extraordinary peace followed centuries of endless wars and preceded the colossal carnage of the twentieth century.

Peace prevailed, in large part, because non-intervention became the hallmark of foreign policy. Nations seldom tried to bully one another, and economic policy was a major reason why. There was unprecedented freedom of movement for people, goods, and capital. By reducing intervention in economic affairs, governments reduced the risks that economic disputes would escalate into political disputes. There wasn't much economic incentive for military conquest, because people on one side of a border could tap resources about as easily as people on the other side of a border. Trade expanded, strengthening the stake that nations had in the continued prosperity of one another as customers and suppliers. While free trade was never a guarantee of peace, it reduced the danger of war more than any public policy ever had.

In all this, one name towers above the rest: Richard Cobden, the straight-talking English textile entrepreneur who gave up his business to crusade during three crucial decades. He pursued the most successful political strategies for free trade. He articulated the moral case which proved decisive. His inspired speeches attracted thousands of people at a time and raised plenty of money. He traveled throughout Europe, the United States, North Africa, and the Near East, spreading the gospel of free trade to kings and commoners alike.

"He had no striking physical gifts," noted his principal biographer John Morley. "In his early days, he was slight in frame and build. He afterwards grew nearer to portliness. He had a large and powerful head, and the indescribable charm of a candid eye. His features were not of a commanding type; but they were illuminated and made attractive by the brightness of intelligence, of sympathy, and of earnestness. About the mouth there was a curiously winning mobility and play. His voice was clear, varied in its tones, sweet, and penetrating; but it had scarcely the compass, or the depth, or the many resources that have usually been found in orators who have drawn great multitudes of

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men to listen to them. Of nervous fire, indeed, he had abundance, though it was not the fire which flames up in the radiant colors of a strong imagination. It was rather the glow of a thoroughly convinced reason, of intellectual ingenuity, of argumentative keenness. It came from transparent honesty, thoroughly clear ideas, and a very definite purpose."

Cobden was born June 3, 1804, the fourth of 11 children, near Heyshott, Sussex, England. His father, William Cobden, was apparently an inept farmer, and he and his wife, Millicent Amber, proved unable to avoid bankruptcy. In 1819, Richard started working as a clerk at his uncle's textile warehouse, and he regularly sent money home. He became a traveling salesman, and a dozen years later launched his own textile warehouse business, specializing in calicos and muslins.

In 1833, Cobden made his first overseas business trip—to Paris. The next year, he traveled to France and Switzerland. Two years later, he spent more than a month in the eastern United States, very much impressed by the American spirit of enterprise. Soon afterwards, he traveled through Spain and the Mediterranean, observing how all kinds of people cooperate peacefully in markets.

Meanwhile, there was a growing political movement for free trade. The most obnoxious trade barriers were tariffs on "corn," as the English referred to grain. Such tariffs amounted to taxes on bread, a primary food for millions of poor people. In 1836, the Anti-Corn-Law Association was formed. Although its founders presented a strong logical case for free trade, they didn't get anywhere.

In 1836 or 1837, Cobden was asked by a man named John Bright to give a talk on education, and the two hit it off. Bright, born on November 16, 1811, was the son of a Rochdale cotton spinner. Like Cobden, his formal education ended with grammar school, but he pursued his love for English literature. As a Quaker whose ancestors had been imprisoned for their Nonconformist (non-Church of England) views, Bright developed a moral fervor about current affairs. He honed his speaking abilities in public squares, church meetings, and other gatherings.

The Anti-Corn Law Movement

Cobden and Bright helped focus free traders on three principal issues. First, they set an inspiring, radical objective—repealing the corn laws. Cobden convinced all supporters that every shilling of tariff inflicted misery on people. Modifying the tariffs, a position favored by compromise-minded chamber of commerce people, was out.

Second, free trade would capture the imagination of people if it became a moral issue. "It appears to me," Cobden wrote an Edinburgh publisher, "that a moral and even a religious spirit may be infused into that topic [free trade], and if agitated in the same manner that the question of slavery has been, it will be irresistible."

Third, success would require a national campaign coordinating anti-corn-law associations throughout England—the mission of the Anti-Corn-Law League, launched in March 1839. This, in turn, called for vigorous fund-raising. Cobden made arrangements to turn his calico printing and marketing business over to his partners.

Cobden hammered the corn laws for making people miserable. "He knew of a place," noted biographer Morley, "where a hundred wedding-rings had been pawned in a single week to provide bread; and of another place where men and women subsisted on boiled nettles, and dug up the decayed carcass of a cow rather than perish of hunger."

Increasingly, Cobden and Bright appeared together on the same platform, and they achieved far greater impact than either could alone. "Cobden always spoke first," explained Bright biographer George Macaulay Trevelyan, "disarming prejudice and exposing with clear economic arguments set off in homely illustration the wrongs that farmers and labourers, or manufacturers and operatives, suffered through the working of Protection. When the audience had thus been brought round into a

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sympathetic state of mind, then—to use Bright's own words—'I used to get up and do a little prize-fighting.'. . . his characteristic and vital contribution was the passion with which he reinforced reason, and the high tone of moral indignation and defiance which he infused into his listeners. And this was exactly where Cobden, the persuader, was necessarily weakest. Each supplied the defects of the other's qualities. The known friendship between them, the utter absence of rivalry and self-interest, the apostolic fervor that made these missionaries so unlike the common Whig and Tory politician. . . ." Cobden and Bright were on the road almost non-stop, often attracting crowds which numbered in the thousands.

While the free trade campaign was still a long way from its climax, Cobden married. His bride was Catherine Anne Williams, a charming Welsh woman who was one of his sister's friends. They went on a honeymoon through France, Switzerland, and Germany—the last time they saw much of each other in quite a while, as it turned out.

Cobden concluded he wasn't likely to succeed if he were only an outside agitator. He had to work within Parliament, too. After an unsuccessful bid, Cobden won an election in 1841. He exerted considerable influence because of his speaking ability and popular influence outside Parliament.

On September 10, 1841, Bright's wife, Elizabeth, died of tuberculosis. They had been married less than two years, and he was devastated. Three days later, his partner was by his side. "Mr. Cobden," recalled Bright, "called upon me as his friend, and addressed me, as you might suppose, with words of condolence. After a time he looked up and said, 'There are thousands of houses in England at this moment where wives, mothers, and children are dying of hunger. Now,' he said, 'when the first paroxysm of your grief is past, I would advise you to come with me, and we will never rest till the Corn Law is repealed.' I felt in my conscience that there was a work which somebody must do, and therefore I accepted his invitation, and from that time we never ceased to labour hard on behalf of the resolution which we had made."

By September 1845, as torrential rains swept across the British Isles, Cobden told Bright that he was worn out. They had been on the road almost non-stop for more than five years, addressing large crowds night after night. He wanted to quit. Bright replied: "your retirement would be tantamount to a dissolution of the League; its mainspring would be gone. I can in no degree take your place. As a second I can fight; but there are incapacities about me, of which I am fully conscious, which prevent my being more than second in such work as we have laboured in."

Meanwhile, rains continued, accelerating the spread of a potato blight which had recently ruined crops in the United States, Holland, and France. Signs of the blight appeared in England. Informed people worried about what might be going on in miserable Ireland where nearly everyone depended on potatoes to survive. Except for northeastern Ulster, Ireland had never gone through an industrial revolution, and Irish peasants were believed to be the poorest in Europe—even worse off than American black slaves. Millions of Irish peasants lived in mud huts without a scrap of furniture. Well, the potato crop rotted everywhere. Peasants began dying from famine and related epidemics of typhus, cholera, and other diseases. Eventually, over a million Irish perished, and hundreds of thousands more emigrated.

Tory Prime Minister Robert Peel reluctantly concluded that the only immediate solution was to abolish the corn laws and let starving Irish buy cheap imported food—even though this was likely to trigger a Tory rebellion which would end his political career. Peel announced his bill for total repeal of the corn laws, phased over a three-year period. It became law on June 26, 1846. He was ousted three days later.

Liberalized Trade

Repeal of the corn laws was just the beginning of trade liberalization. During the

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next three decades, England reduced the number of dutiable imports from 1,152 to 48—remaining items were mostly luxury items with low duties.

Although European countries retained their prohibitive tariffs, England prospered. Cheap food poured into the country, and workers shifted out of agriculture into manufacturing. Then as other countries industrialized, many workers shifted into services. England became the unquestioned leader of world shipping, commerce, insurance, and finance. From 1846 until the outbreak of World War I, England's industrial output soared 290 percent. Imports were up 701 percent, and exports 673 percent. Money wages in England increased about 59 percent for agricultural workers, 61 percent for industrial workers.

Cobden and his family spent a month resting in Wales, then toured Europe. "His reception," reported biographer Morley, "was everywhere that of a great discoverer in a science which interests the bulk of mankind much more keenly than any other, the science of wealth. He had persuaded the richest country in the world to revolutionize its commercial policy. People looked on him as a man who had found out a momentous secret."

Travel affirmed Cobden's humane, cosmopolitan world view. "I am not one who likes to laud the Anglo-Saxon race as being superior to all others in every quality," he wrote a friend, "for when we remember that we owe our religion to Asiatics, our literature, architecture, and fine arts greatly to the Greeks, our numeral signs to the Arabs, our civilization to the inhabitants of Italy, and much of our physical sciences and mechanical inventions to the Germans; when we recollect these things it ought to make us moderate in our exclusive pretensions."

The Crimean War

Soon after his return to England, Cobden was drawn back into public policy debates by the appointment of belligerent Lord Palmerston to the Foreign Office. In 1854, Palmerston plunged England into the Crimean War, purportedly to maintain the balance of power by saving the corrupt Turkish empire from grasping Russia which had just ravaged Hungary. Cobden and Bright stood virtually alone for non-intervention—and for setting England's colonies free. During the next parliamentary elections, in 1857, both were defeated.

The two-year war turned out to be a pointless bloodbath which cost the lives of some 25,000 English soldiers. It tarnished the reputation of generals and the prestige of England. The only star to emerge was Florence Nightingale. She organized efficient nursing services which dramatically reduced the death rate among wounded soldiers. Her valiant work inspired the Red Cross movement.

For several decades, English foreign policy returned to non-intervention as Cobden and Bright had advocated. England stayed out of the Franco-Austrian War, the American Civil War, the Danish War, the Franco-German War, and later wars between Turkey and Russia. By 1859, both Cobden and Bright had been re-elected to Parliament.

On July 21, 1859, Bright gave a speech in which he suggested that England could cut its military spending—much of which was to protect against a possible attack from France—and that both countries should liberalize their trade restrictions to help promote peace. Inspired by this idea, French government trade adviser Michel Chevalier urged Cobden to try converting the French emperor Louis Napoleon, since Cobden had been so successful converting England to free trade. Cobden consulted with English government officials and negotiated a commercial treaty which provided that England would end its tariffs on French goods and cut its tariffs on French wines 85 percent. France would convert its import bans to tariffs which would be reduced to less than 25 percent within five years. The initial term of the treaty would be for 10 years. By January 23, 1860, the treaty was signed by Louis Napoleon as he invoked his executive powers. Despite stubborn Tory opposition, Parliament approved the treaty.

It had a dynamic impact. Between 1862

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and 1866, the French negotiated trade liberalization treaties with the Zollverein (German customs union), Italy, Belgium, the Netherlands, Switzerland, Spain, Portugal, Sweden, Norway, Papal States, and North German commercial cities. Most of these, in turn, liberalized trade with each other. Trade restrictions were reduced or eliminated on international waterways such as the Baltic and North Sea channel (1857), Danube (1857), Rhine (1861), Scheldt (1863), and Elbe (1870). Even Russia lowered tariffs somewhat, in 1857 and 1868. Because each treaty observed the "most favored nation" principle, it liberalized trade not only for the signatory nations, but for everyone else as well. Never before in European history had people been able to go about their daily business so freely.

On one occasion during his last years, Cobden strolled with a friend through St. Paul's Cathedral cemetery, burying ground for many of England's most famous heroes. The friend suggested Cobden might find an honored place there. Cobden replied: "I hope not. My spirit could not rest in peace among these men of war. No, no, cathedrals are not meant to contain the remains of such men as Bright and me."

Approaching his 61st birthday, Cobden suffered serious asthma attacks. Breathing became a deadly struggle. In a London lodging house, where he went to relax near the House of Commons, he died on Sunday, April 2, 1865. John Bright was among those by his side. "I have only to say that after twenty years of most intimate and almost brotherly friendship," Bright mourned, "I little knew how much I loved him until I had lost him." □

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If It Ain't Broke—Don't Regulate It

by Wayne T. Brough

In 1990 the Food and Drug Administration demanded the McCurdy Fish Co. of Lubec, Maine—the last U.S. smoked-herring company in the industry—to change its production process to reduce the dangers of botulism. The changes proved to be too costly and John McCurdy closed his doors, laying off all 22 workers. The FDA's rule came after 20 years in business and 54 million fillets. Not one case of botulism was ever reported against McCurdy and the FDA found no problems in their almost yearly inspections of McCurdy's fish.[1]

The federal government has regulations that affect almost every facet of daily life. Unfortunately, in cases such as the McCurdy Fish Co., regulations do not always benefit the public. Currently, the price tag for federal regulations is more than $500 billion per year—over $5,000 per household.[2] This is roughly equivalent to the typical family's federal income tax burden. Unlike the income tax, however, regulations are hidden taxes that do not receive the public scrutiny of the typical tax hike. Instead, businesses face higher costs of production, American companies have a tougher time competing in a global economy, and consumers pay more for goods and services. Proponents of regulation argue that federal regulations provide important safeguards that justify the costs of the regulatory burden.[3] If, in fact, federal regulations generated $500 billion in benefits each year, critics of regulation would be hard-pressed to make a case for reducing regulations. But what are the benefits—relative to the costs—of a hazardous waste clean-up that requires the dirt to be so clean that a child could eat one-half teaspoon a month for 70 years and not develop cancer?[4] And how can the benefits of hazardous waste clean-ups justify the costs of Superfund when 36 cents out of each of the $11 billion spent by the private sector through 1991 went to legal fees rather than to cleaning up waste sites?[5]

There are a number of legitimate concerns that can be raised when discussing federal regulations and regulators. But attempts to make government regulators more responsive to the public's concerns have generated staunch resistance among environmentalists and other public interest groups. Last year, these groups mounted a major campaign to defeat what they dubbed the "unholy trinity": requirements for cost-benefit analysis and risk assessment, stronger protections for private property rights, and restrictions on unfunded mandates imposed by the federal government on states and local communities.

In response to these concerns, Congress is considering an expansive regulatory re-

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form agenda. Perhaps the most important elements of regulatory reform are the use of cost-benefit analysis and risk assessment, tools that would require a careful assessment of the impact of federal regulation in order to eliminate unnecessary or even counterproductive regulations.

Cost-Benefit Analysis

Requiring federal agencies to assess the costs and benefits of regulations is not new.[6] President Ronald Reagan formalized the regulatory review process through Executive Order 12291, which gave the Office of Management and Budget the authority to review agency regulations to ensure that the benefits of regulations were commensurate to their costs. Simply put, the executive order provided guidelines to the federal agencies to ensure regulations met certain minimum standards. First, agencies were asked not to regulate unless they had sufficient information. Second, agencies were to choose the least expensive method for meeting a regulatory objective. Finally, agencies were not to regulate in those instances where the benefits of regulation did not exceed costs.

These guidelines for regulatory review had an immediate impact on the level of federal regulation. Direct measures of regulation are difficult to identify but a useful proxy is the number of pages in the *Federal Register*. The page count dropped from 87,012 pages in 1980 to 47,418 pages in 1986.[7] Efforts to rationalize the regulatory burden proved beneficial to consumers as well. Economic regulatory reforms enhanced consumer welfare substantially—in the transportation sector alone, consumer welfare increased by more than $30 billion.[8]

However, these trends reversed in 1986 as Congress mounted pressure for additional regulations and as agencies learned to "game" the system. Federal Register pages now have climbed to 69,688 pages—the highest level since 1980. In 1991, rules reviewed by OIRA had reached 2,523.[9] The price tag of final major rules—those costing more than $100 million, or those with significant impact—jumped more than 57 percent from 1991 to 1992.[10] Moreover, President Clinton, upon entering office, altered the regulatory review process in a way that provides agencies with more discretion; the review procedures have also changed so that fewer rules are sent to the Office of Management and Budget (OMB). At a time of expanding agency authority and weakened regulatory oversight, the Clinton administration released the *Regulatory Plan and Unified Agenda of Federal Regulations*, which identifies more than 4,300 rulemakings now underway at federal agencies.

Risk Assessment

In recent years, health, safety, and environmental regulations have constituted the bulk of growth in the regulatory burden. The Environmental Protection Agency's own estimates suggest that environmental regulations alone will cost more than $160 billion annually by the year 2000.[11] Risk assessments have been in use by a number of agencies, from the EPA to the Department of Defense. However, the analysis is uneven at best, and important assumptions often lie hidden in the assessment. Currently, many risk assessments use extremely conservative assumptions that provide only an upper bound estimate of risk. In one case, the exposure level at the heart of a regulation is based on a resident that is "assumed to live 200 meters from an industrial source of toxic air pollution breathing maximum predicted outdoor concentrations of a single chemical for 70 years, 24 hours per day."[12] This sketch of a hypothetical individual is hardly a description of the average person.

In addition to providing better information for cost-benefit analysis, risk assessment is an important tool for ensuring that scarce resources are not misallocated. We do not live in a zero-risk society; all human endeavors involve risk. Costly regulations that provide trivial reductions in risk divert resources away from more imminent dangers. Consider, for example, a hazardous materials listing requirement for a wood preservative. OMB has estimated that this

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regulation will divert one statistical death at a price of $5.7 trillion.[13] Avoiding such excessive regulations would allow consumers to address more significant risks they face in their daily lives.

It is important to remember that in a world of limited resources excessive spending on trivial risks may expose the public to new risks in other areas. Such "risk-risk" comparisons must be taken into account when determining the impact of regulations. For example, a regulation requiring parents to use a child safety seat for young children when flying may have the unintended effect of increasing risks to the public. The child safety seat requires families to purchase an extra ticket, causing more people to opt for driving—a far riskier activity than flying.

Another important factor to consider is the relationship between health and wealth. In general, wealthier people live longer and enjoy a higher quality of life because they have the resources necessary to purchase health care, more nutritious foods, and so forth. The costs imposed by regulations can reduce income and employment, leading to lower standards of living that could offset any potential benefits from the regulation. In fact, Peter Huber has stated that, "For a 45-year-old man working in manufacturing, a 15 percent increase in income has about the same risk reducing value as eliminating all hazards—every one of them—from his workplace."[14] A number of academic studies have confirmed this relationship between health and wealth.[15] Costly regulations that do not address significant risks can have adverse effects on overall public health by reducing income and diverting resources from more important uses.

Why Reform Is Needed

Reducing regulation makes good sense. Consider the example of Superfund. Originally established as a $1.6 billion trust fund to clean up toxic waste sites, the Superfund program now makes up 25 percent of the EPA's $6 billion budget. The typical cleanup currently costs $25 million, and based on current expenditures, the total costs of the program over the next 30 years will exceed $150 billion, on top of any legal fees involved.[16] Unfortunately, many of the sites targeted by the EPA for cleanup do not pose great threats to the community. Analysis that exaggerates the risks by up to 10,000 times is used to identify future Superfund sites. Worst-case scenarios are used, such as the child eating dirt for 70 years. Consequently, much of the risk identified by the EPA is imaginary, based on assumptions of fictitious, "maximum exposed individuals" (that is, the dirt-eaters). One study of 77 Superfund sites found that 92 percent of the cancer risk identified by the EPA was future risk that was dependent on the agency's assumptions about future behavior and yes, eating dirt.[17]

To counter the "better safe than sorry" arguments, it is important to emphasize that each cleanup has an average price tag of $25 million. As it stands, EPA uses conservative assumptions even in those instances where the possibility of human exposure is remote. The result, as Keith Schneider has stated, is high cleanup costs that provide few benefits: "More than ten years ago the federal government adopted the view that when there is any doubt, it is better to take the prudent approach than do nothing. But a decade later, the economic costs of this policy are painfully clear while the benefits remain largely unmeasurable."[18]

Superfund is only one federal program. The federal government regulates everything from airline safety to pesticide use. More effective cost-benefit analysis and proper risk management will help avoid situations where costly regulations offer few benefits to the consumer. Sound science and objective information provide a more rational approach to regulation than a system driven by political pressure or media hype.

Conclusion

Protecting the environment and improving health and safety are not inexpensive. These activities place a significant burden on the American economy. The expansive

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role of federal regulators was not envisioned by the Founding Fathers and there are only limited institutional constraints on their activities. Government bureaucracies are not constrained by the incentives of the marketplace; regulators do not have the particular knowledge of time and place that is generated by market activities. A requirement to eliminate regulations that provide no net benefits introduces an element of accountability that restricts bureaucratic discretion. Regulatory reforms such as risk assessment or cost-benefit analysis are important first steps toward deregulation—and much-needed protection from unconstrained federal regulators. □

1. See, Brent Bowers, "FDA Regulatory Tide Swallows Up McCurdy Fish Co.," *Wall Street Journal*, May 18, 1993, p. B-2.

2. See Thomas Hopkins, "Costs of Federal Regulations," in *Regulatory Policy in the United States and Canada*, Rochester Institute of Technology, 1992.

3. The recent "Assault on Safety," by Public Citizen, Washington, D.C. (February 1995) provides a summary of this viewpoint.

4. James Lis and Melinda Warren, "Reforming Superfund," *Policy Study Number 118*, Center for the Study of American Business, February 1994.

5. "Fixing Superfund: Getting the Formula Right," *Research Brief*, RAND, Institute for Justice, Santa Monica, California (July 1994).

6. See the Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1988–March 31, 1989*, U.S. Government Printing Office, Washington, D.C. (1989) for a history of the regulatory review process.

7. Regulatory Information Service Center, Washington, D.C.

8. See Clifford Winston, "Economic Deregulation: Days of Reckoning for Microeconomists," *Journal of Economic Literature*, vol. 31 (September 1993), pp. 1263–1289.

9. Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1992—March 31, 1993*, U.S. Government Printing Office, Washington, D.C. (1993).

10. Office of Management and Budget, *Budget Baselines, Historical Data, and Alternatives for the Future*, U.S. Government Printing Office, Washington, D.C. (1993).

11. U.S. Environmental Protection Agency, *Environmental Investments: The Costs of a Clean Environment: A Summary*, December 1990, Washington, D.C.

12. Quoted in "A Historical Perspective on Risk Assessment in the Federal Government," Center for Risk Analysis, Harvard School of Public Health, March 1994.

13. Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1992–March 31, 1993*, U.S. Government Printing Office, Washington, D.C. (1993).

14. Quoted in Aaron Wildavsky, "Riskless Society," in *The Fortune Encyclopedia of Economics*, David Henderson, ed. (New York: Warner Books, 1993).

15. For a survey of the health-wealth literature, see, Office of Management and Budget, *Regulatory Program of the United States Government, April 1, 1992-March 31, 1993*, U.S. Government Printing Office, Washington, D.C. (1993).

16. James Lis and Melinda Warren, "Reforming Superfund," *op. cit.*

17. See James Hamilton and W. Kip Viscusi, "Human Health Risk Assessments for Superfund," paper prepared for New York University School of Law Conference on Reauthorizing Superfund, December 1994.

18. Keith Schneider, "How a Rebellion over Environmental Rules Grew from a Patch of Weeds," *New York Times*, March 24, 1993, p. 1.

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THE FREEMAN
IDEAS ON LIBERTY

Freedom, Efficiency, and *The New York Post*

by Joseph S. Fulda

In a beautiful little article, "Entrepreneurs and Their Gifts," Jane Shaw, a Contributing Editor of this journal, makes the case that entrepreneurs, even when they don't succeed, give to the economy in which they invest. A few months later in "The Economics of Errant Entrepreneurs," Israel Kirzner, a distinguished professor of economics, replies to her article with a firm, but gentle, dissent.[1] The purpose of this article is to show why a libertarian of the Austrian School who admires Professor Kirzner's work nevertheless sides with Ms. Shaw.

Ms. Shaw tells the story of Bozeman, Montana, a small town with the variety of a small city: exotic seafood restaurants, a doll furniture store, a flower shop that sells African violets only, kitchen boutiques, upscale wine shops, and a surprisingly good bookstore. According to her research, one in seven of all businesses in the county changed hands—or just began—within the year. The people of Bozeman, she writes, "get more goods and services . . . than [they] deserve," for "as a result of all these eager entrepreneurs" consumers "don't pay the full cost of the goods and services [they] buy. Instead, the providers pay in the form of lost profits and lost fortunes. [T]he consumers are the beneficiaries." "Bozeman's experience suggests," she concludes, "that an endless succession of businesses can operate without profits—as long as there are romantic optimists to take up where the disillusioned leave off."

To this Professor Kirzner replies, "[T]here is only *one* benefit to society arising out of unprofitable entrepreneurship that deserves to be treated as a fundamental advantage. All other benefits, while we may indeed be grateful for them, are likely to be enjoyed at the expense of more serious disadvantages both to others and to ourselves." That one benefit, "the central social gain from losing entrepreneurial ventures," is enjoyed "not by individuals unusual enough to enjoy the output of those overoptimistic ventures, but by all members of society insofar as they stand to gain from *superior* entrepreneurial judgment—a quality standard enforced by the severe discipline imposed on errant entrepreneurs. . . ." And, he adds, Ms. Shaw's account fails to consider that an "unprofitable venture . . . has *harmed* society insofar as it is likely to mean that it has used valuable, scarce social resources to produce goods worth *less* than other goods that could have been alternatively produced." It is Professor Kirzner's use of "social," not his flawless economic analysis, that disturbs.

As the late Russell Kirk, a supporter of capitalism but much more a believer in faith and freedom rooted in faith, wrote "I have regarded with some suspicion many practitioners of the Dismal Science. I have found economists a blinkered breed, worshiping the false god, Efficiency."[2] No doubt Dr. Kirk meant many things by this, to some of which I would surely not assent, but among those meanings surely is that the moral and spiritual claims of freedom and by implication the free economy are more compelling than its empirical claim to being the most efficient way of providing for our needs. To this proposition, I wholeheartedly assent.

Entrepreneurs act, as George Gilder reminds us, on faith. Their faith is only partly

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in their ability to turn their investment into profits. It is also their faith in themselves and in their ability to make their respective dreams come true. And, if their faith in themselves should not be vindicated, we should offer praise for their having been so brave as to try despite the odds. And, those odds—two out of three small businesses fail within five years—are what make entrepreneurship an act of faith. Moreover, whatever resources are misallocated by the experiments of the entrepreneur are *his* to allocate, *his* to lose. It is uniquely American to allow everyman, no matter how high the odds of failure, to pursue the American dream in his own way. And, by implication, it is his right to decide when he has failed. If he is able to sustain losses for even five consecutive years and still maintains his faith in his dream, let us remember that few, indeed, are the enterprises that don't at first sustain losses. The experiment is over and the final judgment on the allocation or misallocation of resources is in only when the entrepreneur closes the doors to his business, through bankruptcy, abandonment, or, more frequently, as Jane Shaw writes, through change of ownership. "Where there's life there's hope" applies to businesses as to persons and an enterprise that one man would close after years of successive losses, another man with greater faith in himself might keep open long enough to see his losses subside, ultimately turning to ever-greater profits.

Let us take *The New York Post*, the only conservative daily in New York City. For years, the *Post* has been unprofitable and it has changed hands many times. No doubt the expertly argued commentary and the adroitly written editorials by Eric Breindel and the other members of the editorial board are, in Professor Kirzner's words, "catering to the tastes of a too-narrow group of consumers," but as one of their number I wouldn't have it any other way. Nor do I think that the successive owners of the *Post* are necessarily among the "entrepreneurial fools and romantic optimists" of Professor Kirzner's vision. Indeed, their vast holdings of successful enterprises shows that the former they are clearly not and, as for the latter, well, I don't know. True, each time the *Post* goes on the table, the new owner or prospective owner insists he will turn it around, but few in the small New York conservative camp believe them. They *are* acting, in part, out of altruism—or egoism, if you will; they want to own something they value and that they think is of social value, even if it means that they suffer losses year after year. But whether they are romantic optimists, altruists, or egoists is of no real interest to me: What interests me is the *Post* itself and ensuring that entrepreneurs have every bit as much freedom to pile up losses as to pile up profits.

Indeed, the argument for freedom *in se* over efficiency is morally imperative, if, as a Judeo-Christian society, we are to look with benevolence on all forms of voluntary charity. Isn't it better for the failing entrepreneur to be given an influx of new capital by a benevolent friend than to be simply told to close his business and take a charitable contribution in cash or in kind? Certainly, it is better for both the giver and the recipient, as *they* see it, and arguments that it is worse for society at large to have a lot of capital misallocated rather than a smaller sum go directly to charity presume that moral philosophy must follow economic science, when, in fact, it is the other way around. Let us be free to be both romantic optimists and charitable men. We need not worry that the free economy will not ensure efficiency because of such men, for as Professor Kirzner so rightly points out, one must *have* capital in order to invest it and the market will simply not allow unlimited optimism or charity. But where exactly those limits are is decided in freedom. Let us not worship the false god of efficiency. □

1. Jane S. Shaw, "Entrepreneurs and Their Gifts," *The Freeman*, April 1987, pp. 124–125; Israel M. Kirzner, "The Economics of Errant Entrepreneurs," *The Freeman*, August 1987, pp. 301–302. Both essays have been reprinted in *Free to Try* (Irvington-on-Hudson, N.Y.: The Foundation for Economic Education, 1995).

2. Quoted in *The New York Post*, June 1, 1994.

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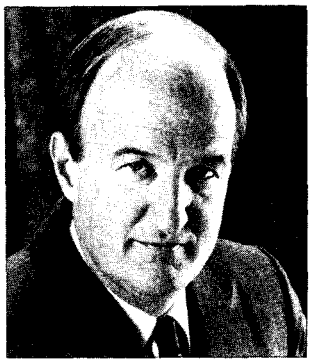

$4,000 A Month From Social Security?

"Social Security will remain nicely in balance for at least the next 20 years . . . If it ain't broke, don't tinker."

—Prof. Robert Kuttner, *Business Week*, February 20, 1995

Professor Kuttner, the American Association of Retired Persons (AARP), and other apologists for the current Social Security system don't get it. The real issue is not whether the national pension program is solvent or not. It is not a question of whether to reduce Social Security payouts, defer retirements, assess a means test or raise FICA taxes again. Congress has attempted all of the above, and the system is still fundamentally unsound.

The real problem is simple: Social Security is a lousy retirement program and, as a result, imposes a huge drag on the U.S. economy and every other nation with a similar plan. FICA taxes cut deep into the pockets of every worker and every business. Payroll taxes have increased 17 times, from 2 percent of wages, up to a maximum of $60, in 1937, to 12.4 percent, up to a maximum $6,438.00 today. To cover future payouts beyond 2015, experts predict taxes will have to rise to 17 percent of gross income. When is this craziness going to stop?

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The tragic irony of Social Security is that it is a forced savings plan that doesn't contribute one dime to real savings. That's because Social Security is a pay-as-you-go system. Contributions are immediately paid out in benefits. FICA taxes go either to (a) pay current Social Security retirees, who use the money to pay bills, or (b) the Social Security Trust Fund, which invests entirely in T-bills, in other words, government spending. In short, payroll taxes are consumed, not saved. As Professor Joseph Stiglitz states, "the Social Security program is a tax program, not a savings account."

Social Security vs. Individual Retirement Accounts

Imagine what would happen if Social Security taxes were invested in Individual Retirement Accounts, so that wage earners could invest in stocks and bonds. In other words, what would be the effect if Social Security funds were invested in free-enterprise capitalism, rather than government transfer programs?

Such a study has just been completed by William G. Shipman, principal at State Street Global Advisors in Boston, Massachusetts. He analyzed two workers, one earning half the national average wage (approximately $12,600 in today's wages), and the other making the maximum covered earnings ($61,200 today). A low-income earner who retires this year will receive $551 a month from Social Security. But if he had

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been allowed to invest his contributions in conservative U.S. stocks over his working years, he would be receiving an annuity of $1,300 a month for the rest of his life, almost three times his Social Security income.

A high-income earner would do even better. If he retired today, he would receive $1,200 a month from Social Security. Had he invested the money in stocks, he would be receiving an annuity of $4,000 a month.[1] Now that's what I call retiring with dignity.

In sum, Social Security is a lousy retirement plan and a tragic waste of resources. This year approximately $350 billion will be paid into Social Security. In addition, the Social Security Trust Fund, held for future payouts, is valued at $436 billion and rising. Imagine if all that money had been invested in the capital markets. Imagine if the Social Security Trust Fund could be managed by Peter Lynch, Warren Buffett, or another top money manager and invested in the financial markets. (However, I do not favor government control of American companies. I'm simply demonstrating the profit potential when funds are invested rather than consumed.)

Chile Sets the Example

Wishful thinking is reality in a small nation south of us—Chile. Its Social Security system puts America to shame. In 1981, under the influence of free-market economists, Chile privatized its failing Social Security system and replaced it with private pension fund accounts for new workers. Middle-aged workers were given the option of using the new privatized pensions or remaining in the state system, while the government plans for existing retirees and those within a few years of retirement remained untouched.

The results have been astounding. Today 93 percent of the labor force is enrolled in 20 separate private pension funds. Annual real returns on pension investments averaged 13 percent from 1981 to 1993. Chile's private pension plan deepened the nation's capital market and stimulated economic growth. Its domestic savings rate has climbed to 26 percent of gross domestic product, and economic growth rate averaged 5.4 percent annually from 1984 to 1992.

Retirees still on the state pension system are being paid from general revenues, boosted by tax revenues from privatizations of state companies and the expanding economy.

In short, Chile provides a role model for a successful privatization of the U.S. Social Security system. Converting the pay-as-you-go system into a genuine savings program will dramatically increase capital formation and economic growth in the U.S.

Reform is Coming

Until recently, discussion of privatizing Social Security or highlighting the Chile model has been muted. I recently reviewed the 1995 editions of the top ten textbooks in college economics. Only one mentioned the possibility of privatizing Social Security, and none mentioned Chile's alternative.

Lately, however, resistance to reform has been crumbling. *Time* magazine ran a March 20th cover story, "The Case for Killing Social Security," and virtually endorsed the Chile model. Paul Craig Roberts wrote a favorable column about Chile and Social Security reform in the March 27, 1995, issue of *Business Week*. And now Senators Robert Kerrey and Alan Simpson are sponsoring a bill to allow workers to pay 2 percent less in payroll taxes if they invest it in their own IRAs. It's a beginning. House Speaker Newt Gingrich pledged to keep Social Security off limits this year, but for how long? As Lao-tzu says, "To resist change is like holding your breath—if you persist, you will die." □

1. William G. Shipman, "Retiring With Dignity: Social Security's Harmful Role, Capital Markets' Helpful Solution," Cato Institute Policy Analysis, forthcoming.

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A REVIEWER REMEMBERED:
John Chamberlain
1903–1995

John Chamberlain lived with the printed word most of his life. He was a reader from his earliest years and during his four years at Yale acquired a command of Western Civilization's literary treasures. John's fine literary sense developed early, along with a superb style.

John's first book was a history of the Progressive Era in the United States—roughly the four decades from 1880 to 1920. In 1912 Teddy Roosevelt ran for President on the Progressive Party Ticket. John's book entitled *Farewell to Reform* (1932) was based on extensive research, a critical use of original sources, and mature literary skill. This book was republished in 1958 and stands today as one of the essential books for understanding those critical years.

For several years during the 1930s John wrote the daily book review for *The New York Times*. There was rarely a time during this period, he has told us, when he did not have a book in his pocket. Even when he went to Yankee Stadium to watch a ball game he would read between innings! This would kill the ordinary man's love for books—or for baseball—but day after day John churned out his review and came to be regarded as one of America's most trusted book reviewers.

No one on the New York literary scene during the New Deal was unaffected by the left-wing slant of most intellectuals. If many of one's friends—intelligent, articulate, and well-meaning—inclined toward socialism and the Roosevelt regime, well perhaps there was something to it. So John was briefly involved, as he wrote later in his fine autobiography, *A Life With the Printed Word* (1982).

Then in 1937, John came across a just published book, *Our Enemy the State* by Albert Jay Nock. That book, John wrote later, "hit me between the eyes." He had never really been convinced that government had a messianic role to play in society and he began then, as he wrote in his second book, *American Stakes* (1940), to move sharply in the direction of classical liberalism.

John held positions on the editorial staff of *Fortune* (1936–1941) and *Life* (1941–1950), writing dozens of memorable articles.

John's *The Roots of Capitalism* (1959) explained simply in his elegant prose how the capitalistic economic system functions and how economic freedom encourages entrepreneurs and increases the well-being of all.

In the early 1960s, John wrote a series of articles for *Fortune* about various industrial firms and business tycoons. Writing these articles involved extensive independent research and in-depth interviews and led John to realize how much these able, far-seeing men had been maligned and falsely attacked by the ideologues of the left. These articles were published as John's story of American capitalism, *The Enterprising Americans* (1963, 1991).

In 1950 a small group of men—FEE Trustees mostly—established *The Freeman*, reviving the name that had been used by a periodical edited by Nock from 1920 to 1924. The editors were John Chamberlain, Suzanne La Follette, and Henry Hazlitt. John had a book review section in every issue and numerous articles, which were published in a 1991 book, *The Turnabout Years: America's Cultural Life, 1900–1950*. After the magazine was taken over by FEE in 1956, John continued his column, "A Reviewer's Notebook."

John Chamberlain was a very private person; modest and unassuming. He avoided the limelight, letting his printed words—multi millions of them—speak for themselves. And they continue to speak eloquently for this gentle man, genuine scholar, great stylist, and inspiring friend.

After a brief illness John died on April 9, 1995. He is survived by his wife, Ernestine, six children, 19 grandchildren, and three great-grandchildren. □

—Edmund A. Opitz

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BOOKS

All the Trouble in the World: The Lighter Side of Overpopulation, Famine, Ecological Disaster, Ethnic Hatred, Plague, and Poverty

by P. J. O'Rourke

Atlantic Monthly Press • 1994 • 362 pages • $22.00 (from Laissez Faire books, $17.95)

Reviewed by William H. Peterson

Quiz time: name the libertarian wit who declared just before the unveiling of the Clinton universal health plan in 1993: "It hasn't even started yet, and already it's not working."

Give up? He's America's heir to the H. L. Mencken legacy of the art of spiking government pomposity and inherent interventionist ineptitude. In fact, P. J. O'Rourke *is* the Washington-based Cato Institute's Mencken Research Fellow as well as a contributing editor to *Rolling Stone* (where some of these pages first appeared) and the author of such best-selling works as *The Bachelor Home Companion*, *Parliament of Whores*, and *Give War a Chance*—works tickling the funnybones of otherwise grouchy, government-socked Americans and their peers overseas.

O'Rourke's skill in renouncing the armchair and on-line computer for global on-the-spot surveys of political pomposity is on display here as he sails forth into Somalia, the Amazon, Rio, ex-Yugoslavia, the Czech Republic, Bangladesh, Haiti, Vietnam, and the campus of Miami University in Ohio. Watch out, overweening *National Geographic* and supercilious *Smithsonian Magazine*, you're no match for the sharper eye and pen of O'Rourke.

Take his venture into Bangladesh, a nation of some 120 million hardy souls living on the cusp of poverty and still much dependent on jute, the country's largest hard-currency earner. The jute industry, "beneficiary" of subsidies from one of the least rich governments in the world, falls prey to versatile plastics across a highly competitive world. Mahbubur Rahman of the Dhaka Chamber of Commerce handed his business card to O'Rourke boasting it was made of jute paper. O'Rourke found it discolored, wrinkled, and lumpy. Mr. Rahman also boasted of the jute rug on his office floor. O'Rourke found it unsightly and coming apart.

But better days apparently lie ahead as Bangladesh goes in for privatization. State-owned plants that the Bangladesh government has wisely put up for sale, notes O'Rourke, include:

Osmania Glass Sheet Factory
Dhaka Match Factory
Bangladesh Diesel Plant
Dhaka Vegetable Oil Industries
Kohinoor Battery Manufacturing Co.
Bangladesh Insulator and Sanitary Ware Factory

These factories are hardly of Japanese quality, and O'Rourke says he'd like to shake the hand—well, meet, anyway—the brave investor who buys the rickety works of the Bangladesh Insulator and Sanitary Ware Factory.

Our intrepid traveler finds Vietnam, scene of battle from French forces in the 1940s-1950s to U.S. forces in the 1960s–1970s climaxed by massive American air strikes on Hanoi in 1973, now a scene of battle between Coca Cola and Pepsi-Cola. But it wasn't until 1990 when the Communists finally threw in the towel *vis-à-vis* socialism. O'Rourke: "They took price controls off everything, put privacy back into private property, and told everybody to go make a living. Faced with a choice between leading and following, the Vietnamese government got out of the way."

O'Rourke's visit to Miami University, his politically correct alma mater, is covered in his chapter, "Multiculturalism: Going from Bad to Diverse." He found the school now blessed with a Department of Diversity Affairs offering 21 courses and a degree in Black Studies, yet the percentage of African

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Americans among undergraduates is but 2.6 percent.

As luck would have it O'Rourke arrived on the campus during "Hunger and Homelessness Week." He watched a group of Miami students celebrate the event by squatting around the campus in pouring rain and trying to hand out fliers so as to "make Miami students aware of the growing homeless situation in America." Said one wet coed: "It's weird how people just walk by and ignore us. You really get a look at the world through a completely different perspective." The perspective of an idle person engaged in moronic activity, says O'Rourke.

Another cultural beef of protesters at a student rally attended by our peripatetic author lies in the use of "Redskins" by Miami varsity sport teams, clearly a high-handed putdown of Native Americans. One coed dressed like the lady on the Land O' Lakes butter package condemned such injustices against Native Americans as "deportation, exploitation, enslavement, disenfranchisement, genocide—and, pausing for emphasis, added what she seemed to feel was the crowning outrage, 'assimilation'."

Sexual harassment turns out to be another hot issue. O'Rourke finds lack of logical consistency in a campus calendar called "The Women of Miami." It carried photos of a dozen bathing suit-clad coeds trying to look, to the best of their puppyish abilities, sexy. Controversy raged among students, some of whom said the photos demeaned women and others who were pretty sure the First Amendment protected medium-sized bikinis. What especially caught O'Rourke's attention was the "Public Service Message" surrounded by semi-spicy photos at the end of the calendar. It read:

> *Guys: When a woman says NO, she means NO! It takes a "Real Man" to respect the wishes of those around him. Be Safe, Be Smart, and Be Understood!*

P. J. O'Rourke ends his book on the note that he doesn't have any answers. But maybe he does, as he mentions things like property rights and the rule of law. Aside from cancer and the like, he observes most of our troubles are not from another planet but are *human* (i.e., man-made) troubles. Hence his suggestions: Be nice. Use common sense. Exercise self-responsibility.

Not bad. □

Dr. Peterson is Distinguished Lundy Professor of Business Philosophy Emeritus at Campbell University, North Carolina.

On Looking Into the Abyss: Untimely Thoughts on Culture and Society

by Gertrude Himmelfarb

Knopf • 1994 • 192 pages • $23.00

Reviewed by Peter J. Boettke

Gertrude Himmelfarb is Professor Emeritus of History at the Graduate School of the City University of New York and the author of numerous studies in intellectual history (such as her studies on Acton and Mill) and the history of Victorian England. She is a wonderful writer who takes her vocation seriously—both in terms of turning a phrase and in doing the dirty work of historical scholarship. *On Looking Into the Abyss* is her reflections on the state of our intellectual culture. It is not optimistic. Literary criticism has disregarded the books it is supposed to comment on, and instead concerns itself with "theory" as if that were more important. Philosophy has embraced nihilism and history has abandoned the footnote. Himmelfarb's message—one that should resonate with readers of *The Freeman*—is that ideas have consequences. Bad consequences in the political world, such as witnessed in the former Soviet Union or in Nazi Germany, are the result of bad ideas, not historical accident. Ideas matter and therefore we should all be serious in our dealings with ideas.

Sometimes Himmelfarb misses her target, other times she hits the nail right on the head. In reflecting on post-modernism, for example, she finds it too easy to discredit philosophical ideas because of the political association of the author, say, Martin

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Heidegger or Paul de Man. Criticisms of their philosophical position are, of course, fair game, but to dismiss their work because of poor moral character on their behalf is another question. Himmelfarb and other critics would have to show how Heidegger's and de Man's scholarly work relates to their fascist affiliation. Maybe that can be demonstrated, but to my mind none of the critics have yet done so.

Himmelfarb is also weak, I think, in her examination of Mill's *On Liberty*. Certainly there is a tension in Mill, but to see in him a confusion between liberty and libertinism is perhaps stretching it. Readers of a conservative bent will find in Himmelfarb a great champion in their fight against the moral decline of our age and the intellectual bankruptcy of libertarianism. The good Mill, to her, is the one who reminds her of Tocqueville and Acton, the bad Mill sanctions the heroin-addict prostitute on the streets of New York. But, those who, like me, are much more comfortable with the libertarian position, and the liberal idea of tolerance for "experiments in living," will find that in her discussions of Mill, Himmelfarb is missing something fundamental about liberal virtues. Libertarianism does not mean libertinism (defined as the absence of responsibility), but libertarianism does mean absolute individual autonomy within those bounds of responsibility. We may not like how some choose to live their lives, but as long as responsibility for their choices lies with them and they do not invade my life, then they must be free . . . and this is a pre-condition for me to live the life I choose. As Albert Jay Nock emphasized in his "On Doing the Right Thing," the libertarian position must permit people to make mistakes in their choices of living not because it sanctions "immoral" behavior, but because it is only by permitting people to make their own choices and bear the consequence of those choices that "moral" living even has an opportunity to emerge as a norm.

On the other hand, with regard to the disappearance of the footnote in historical scholarship or in her critique of post-modern history, Himmelfarb is brilliant. She is a practitioner of the "old" school of historical scholarship, and shuns the kind of social history often championed in scholarly circles today. The historian should be able to locate heroes and villains in the past and record their deeds. A constant theme in this volume is how the Holocaust, for example, becomes trivial under the influence of some of these trends in our current intellectual culture.

Certainly developments in philosophy and literature have questioned modernity and presented us with an interesting abyss to stare into. But Himmelfarb argues that we need not jump in. Our current generation, however, has already done so. At this point, Himmelfarb can no longer help. She has nothing to say once someone has fallen into the abyss; she offers no way out. Her strong suit is warning us not to jump in. Once in the abyss, what can get you out except some blind faith concerning moral reasoning? Scholarship, and the intellectual culture in general, necessitate "good reasons," not moral posturing. We are already in the post-modern moment. Appeals to modernity or even pre-modernity (like Alan Bloom gave us) are not going to get us anywhere. Classical liberal intellectuals at this time must engage the post-modernists. They must challenge the value of abandoning standards of historical and philosophical argument, champion the idea of liberal virtues and cosmopolitanism, and demonstrate the consequentialist grounds for these positions.

On Looking Into the Abyss is a very good book written by a serious thinker reflecting on the state of her culture. Himmelfarb offers the reader many insights. Her emphasis on the role of ideas in society is delightful, and her championing of the standards of scholarship is admirable. This is a book that readers of *The Freeman* will find of great benefit. Despite my reservations about the social-conservative political implications of Himmelfarb's reflections on our intellectual culture, I highly recommend her book. □

Dr. Boettke teaches economics at New York University.

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Inflation is Theft

The Foundation for Economic Education

1994 • 197 pages • $14.95 paperback

Reviewed by Steven Horwitz

This collection brings together a number of different papers previously published in *The Freeman* over the last 25 years or so, with a new introduction by Hans Sennholz. Overall this is a strong collection of essays, particularly suitable for students or the economically-inclined general reader. What is most remarkable about the essays is both how many common themes they touch upon and how the controversial issues they discuss continue to be at the heart of debates among classical liberal monetary theorists today.

A clear message of the book is that one cannot separate inflationary monetary policies from profligate fiscal policy. As with counterfeiting, the lure of inflation is that the inflator can acquire real resources at virtually zero cost. It does this not only directly, but also by reducing the value of the government's massive debt. For political actors seeking votes, or governments seeking power, inflation is a far more palatable way than taxation to pay for new programs or military adventures. A running theme in several essays is that inflation's effects are far more subtle than, but just as injurious as taxation's.

Another clear theme that emerges from this volume is the need to reform not just monetary institutions but fiscal ones as well to combat inflation. Any policies that limit government expenditures and/or government debt will reduce the temptation to inflate.

Throughout the book one comes across critiques of popular definitions of inflation. Clarence Carson's essay "Built-In Pressures to Inflation" begins by nicely clarifying these issues. Many people define inflation as "an increase in the general level of prices." This view errs in treating one of inflation's likely *effects* as its defining characteristic, and thus ignores other factors that might cause the level of prices to rise (or fall) that are not rightly seen as inflation. As numerous contributors (especially Robert Higgs and Bettina Bien Greaves) point out, inflation is, as Milton Friedman phrased it, "always and everywhere a monetary phenomenon." Any definition of inflation must make reference to the money supply.

Several authors also point out that increases in the money supply need not always lead to increases in the price level. For example, an increase in productivity or in the demand for money, exerts downward pressure on prices.

The definition of inflation remains controversial among free market economists. The late Murray Rothbard long defined inflation as *any* increase in the monetary commodity, apparently irrespective of any change in demand. Others, such as George Selgin most recently, have defined inflation as an *excess* supply of money, allowing for increases in the quantity of money that are necessary to keep pace with demand. Mises, incidentally, held to the *latter* view in *The Theory of Money and Credit* as is made clear in the second endnote to J. H. Peters' essay that begins the book. The ambiguities that prompted this ongoing debate are clearly evident in the various *Freeman* articles collected here.

Another important insight consistently present in this book is that the true costs of inflation are much more than any obvious rise in the price level. Several authors emphasize how an excess supply of money affects some sectors of the economy before others, and in so doing causes not only economically unjustified redistributions of wealth, but also changes in the relative prices of various consumer and producer goods. These changes in relative prices alter the structure of production as capital and labor are shuffled into new combinations in different lines of production. These shifts are ultimately unjustified because, as the inflation ebbs, the new demand for those goods will fall off, leaving the owners of retooled capital and retrained labor stuck

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with the now less useful assets. This waste is the major cost of inflation.

More generally, the havoc that inflation plays with the signaling function of prices leads to increased entrepreneurial error, increased uncertainty about the future, and the temptation to use the political process as a means of increasing one's wealth. Any reader of this book will come away with a real appreciation for these costs and the corresponding dangers of inflation.

Only a few of the authors offer any specific recommendations for policy changes that would reduce inflation. What virtually all seem to agree on is that we must somehow end the government's discretionary power over the production of money. For some this means a return to the gold standard, for others it means ending fractional reserve banking, for still others it seems to mean opening up the production of money (including paper) to private entrepreneurs/banks. All of these options sounded truly utopian when written in the '60s and '70s. However, with the exception of ending fractional reserve banking, these proposals are now seen as legitimate options among a growing number of professional economists. That these free market ideas are now taken seriously is the ultimate intellectual vindication for the authors represented in this collection.

One other interesting aspect of this book is how accurate many of the authors were with respect to the direction the U.S. economy would take in the '70s and '80s. Although no one foresaw the growth of the '80s, nor the apparent resurgence of free market thought at the policy level in the '90s, several authors saw the inflation of the '70s and the problems that would arise from trying to eliminate it in the early '80s. Ignored at the time, these arguments take on a fresh relevance when viewed with hindsight.

Inflation is Theft is a nice place to start to get a handle on the basics of why inflation occurs and what problems it causes. As budget deficits persist, as politicians of all stripes continue to try to please voters by promising them the moon, and as the current administration appears to want to make the U.S. the world's policeman, the temptation to resort to inflationary finance is ever-present. To avoid falling for its siren-like charm, we need to understand the nature of the beast. □

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In Defense of Advertising: Arguments from Reason, Ethical Egoism, and Laissez-Faire Capitalism

by Jerry Kirkpatrick

Quorum Books, Westport, Conn. • 1994 • 192 pages • $45.00

Reviewed by Mark Thornton

As an economist, I was hesitant to review a book about marketing written from a philosophical perspective. However, advertising is fundamental to economic activity and I agree fully with the author that advertising must be understood as a "rational, moral, productive, and above all *benevolent* institution of laissez-faire capitalism."

Jerry Kirkpatrick defends advertising by employing the philosophical contributions of Ayn Rand and the economic theories of Ludwig von Mises. Facts, figures, case studies, and quotations spice up what is otherwise a theoretical attack against the critics and opponents of advertising.

I found myself chuckling at the book's beginning description of various criticisms of advertising in which virtually all the evils in society are directly traceable to advertising. While amusing, these views are all too pervasive. The very latest antagonist to emerge is Earl Shorris, a former advertising executive-turned-fiction writer and muckraker. In his latest book, *A Nation of Salesmen: The Tyranny of the Market and the Subversion of Culture*, Mr. Shorris blames advertising for the destruction of such things as our world, our humanity, our nobility, our reason, and our minds.

Mr. Kirkpatrick's philosophical defense

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of advertising is explicitly objectivist or Randian. While I am no expert in this area, his presentation is clear and seems correct in all fundamental aspects. I only question how far into objectivism one needs or wants to go in order to make a defense of advertising? For example, while I might agree with both the author and Ludwig von Mises on the underlying relationship between early Christianity and capitalism, I question the wisdom of raising this issue where it can neither help make his point nor provide an opportunity for full and fair exploration of the issue.

The author provides a convincing discussion on the charge of subliminal advertising in the marketplace. He also addresses the charge that persuasive advertising "creates" needs. The natural controls on deceptive advertising are also presented as an effective counterargument to the critics of advertising. He concludes that honesty sells and that fraud is the only thing that should be against the law.

The author combines his knowledge of marketing with Randian philosophy and Misesian economics to create a truly powerful and compelling case *for* advertising. The general reader will benefit from the author's ability to distill the criticisms of advertising and his responses to them to their most fundamental form while the specialist in marketing, economics, and philosophy will gain a working knowledge of the other disciplines as they relate to advertising.

There is at least one downside of mixing Austrian economics and Randian philosophy—the possible confusion of the terms objective and subjective. Objectivism is a subjective field in which all relevant values are held to be objective while economics is supposed to be an objective study in which all relevant values are considered subjective. I am almost certain that the next generation of libertarians would appreciate a less muddled assembly of terminology.

The author has a clearer notion of the economics of advertising than many economists. His accurate presentation of economics and the methods and views of schools of economic thought is more than adequate. If one is interested in a more in-depth examination of the economics of advertising, *Advertising and the Market Process* by Robert Ekelund and David Saurman should be consulted. However, for those who seek to engage the accusers of capitalism, *In Defense of Advertising* is worthwhile reading. □

Dr. Thornton is the O.P. Alford III Assistant Professor of Economics and Coordinator of Academic Affairs of the Ludwig von Mises Institute at Auburn University.

Liberty Against Power: Essays by Roy A. Childs, Jr.

edited by Joan Kennedy Taylor

San Francisco: Fox & Wilkes • 1994 • 290 pages • $24.95 cloth; $14.95 paperback

Reviewed by Doug Bandow

Little in life is more tragic than the shooting stars, the brilliant lights who illuminate the truth and brighten people's lives, only to flame out before the history books take note. Roy A. Childs, Jr., was one such phenomenon. A leading libertarian writer, editor, and activist, Roy was also a good friend and tough intellectual sparring partner to the famous, like Milton Friedman, and a generous mentor to the obscure, like any number of college students.

Alas, Roy's heart gave out in May 1992, saddening his many friends and admirers. It also seemed likely to deny him credit for helping to revive classical liberalism in the age of the welfare state. Although his words had boomed forth at a multitude of conferences, seminars, and speeches, and leaped off the pages of *Libertarian Review*, *Inquiry*, movement newsletters, and mainstream newspapers, he never wrote a book. Thus, we lacked this most important kind of permanent record of his prodigious thinking.

But no longer. Joan Kennedy Taylor, Roy's close friend and a former editor of *Libertarian Review*, has collected some of his best writings and speeches in a new volume, *Liberty Against Power*. The book

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makes for a wonderful read. It also reinforces the sense of loss that so many of us felt at Roy's passing. If only his unbounded passion for freedom were still burning. If only he had been alive to spotlight the hypocrisy and mendacity of the Clinton administration over the last two years. If only he were here to direct his penetrating wit and relentlessly logical analysis against today's newly ascendant Republicans. If only . . .

At least we now have *Liberty Against Power*. It ranges across the philosophical and policy waterfront, demonstrating Roy's extraordinary learning, despite his never having finished college. The lead article is the book's title essay, setting the philosophical tone for not only this volume, but Roy's life. Over the last century, he observes, "we have seen a massive growth in state power at the expense of what Albert Jay Nock called 'social power'." To what result? "Honesty calls upon us to proclaim that power is everywhere impotent in the face" of today's problems. And that he does eloquently and often.

In another prescient essay, written two decades ago, Roy complains about the lack of debate over basic principle, at least regarding any "issues or policies beyond those which fit cozily into power's framework." His alternative? Liberty. Freedom to life, conscience, and property. Freedom to think and speak. To worship God and live in peace. Particularly noteworthy is Roy's unabashed willingness to make moral arguments. This argument on principle runs throughout *Liberty Against Power*. In a prize-winning essay presented at the Mont Pelerin Society, Roy emphasizes the importance of defending the morality of capitalism. Market economies long ago won the "bathtub" test by providing better bathtubs, but, in Roy's view, that doesn't provide a sufficiently solid ground for the market's defense. Warns Roy: "If wider philosophical issues are ignored, then we run the risk of seeing not only liberty disintegrate before our eyes, but the very foundations of civilization itself. And from that, recovery may not even be possible."

Other essays criticize Ayn Rand's and Robert Nozick's defenses of limited government. Interestingly, Roy moved away from anarchism near the end of his life, but he never finished his attack on "anarchist illusions," included in *Liberty Against Power*. Other insightful chapters include a critique of the New Right, which has at times eschewed not only social tolerance but also market economics; the role of business in promoting regulation, rather than laissez-faire; and the relationship between property rights and civil liberties.

His speech on the latter topic, printed for the first time in *Liberty Against Power*, is particularly illuminating. Ultimately, Roy argues, many contentious civil liberties issues—crying "fire" in a crowded theater, for instance—should be resolved on the basis of property rights. Roy resolutely defends people's right to discriminate "because they have a right to their property and their self-ownership." And Roy, who was grossly overweight, did not let personal interest get in the way of principle: before his death he appeared on the program *20/20* arguing against proposals to penalize discrimination on the basis of weight.

However, Roy was not a starry-eyed, ivory-tower philosopher. Among the best essays in *Liberty Against Power* are his writings on current policy. Even before the Reagan and Bush administrations escalated the war on drugs, Roy wrote "Crime in the Cities: The Drug Connection." Although now 14 years old, the article remains a path-breaker, demonstrating, through rigorous analysis and research, how it is drug prohibition, not drug use, that fuels the crime wave enveloping cities across America.

Similarly impressive are his analyses of foreign policy—El Salvador and Iran, for instance, as well as America's expansive alliance network around the globe. He wants the United States to "abandon the foreign policy which has brought us to the state where Americans are vilified and damned and held hostage" abroad, and instead return to a noninterventionist stance, when we "once again become a beacon of hope and liberty for all the people of the world."

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Liberty Against Power contains much more. Roy assesses Ayn Rand's role in the libertarian movement. He reviews books on welfare and pays tribute to novelist Kay Nolte Smith. He reviews his much-loved classical music. Through all of these he reveals himself to be consistently interesting, knowledgeable, and opinionated; reading each additional essay reinforces the sense of sadness at his passing.

Roy Childs was a treasure to all who knew him. But his life has benefited, and continues to benefit, many more people than just those who had the pleasure of meeting him. The publication of *Liberty Against Power* will create a permanent record of his ideas and work, thereby helping to provide him, in death, the recognition that he richly deserved when he was alive. In this way, *Liberty Against Power* is a fitting tribute to someone who gave so much for so long to so many. □

Mr. Bandow is a Senior Fellow at the Cato Institute and the author of The Politics of Envy: Statism as Theology *(Transaction).*

Liberalism, Conservatism, and Catholicism: An Evaluation of Contemporary American Political Ideologies in Light of Catholic Social Teaching

by Stephen M. Krason

Central Bureau, Catholic Central Verein of America, 3835 Westminster Place, St. Louis, MO 63108 • 1994 • 347 pages • $15.00 paperback

Reviewed by John Attarian

With politics increasingly polarized and penetrating more and more facets of life, it becomes important for American Catholics to know which doctrines and parties they can support while remaining faithful to Church teaching. Professor Stephen Krason of Franciscan University of Steubenville has produced an excellent guide for the perplexed.

After defining liberalism and conservatism and distinguishing between the New Deal, anti-Communist, "old liberalism" of 1945–1960 and the more radical, activist post-1960 "new liberalism," Krason gives a detailed, useful presentation of papal teachings, with special attention to economics. He makes clear the popes' endorsement of private property and enterprise; their view that both employers and workers have rights and obligations; their emphatic rejection of Communism, socialism, and egalitarianism; and their insistence that the state can neither leave society, especially the needy, to laissez-faire competition, nor tax its citizens excessively. Most of the book is a thorough and scrupulously fair sifting of the ideologies. Krason assesses their philosophies by presenting their views on five core issues—the purposes of government; God, religion, and the natural law as the basis of the political order; freedom; equality; and Communism—and comparing them to Church teaching. He does likewise for specific policy proposals in economics; social welfare; agriculture; the environment; civil liberties and civil rights; education; foreign policy; defense; and disarmament.

Since conservatism has diverse perspectives, he assesses the positions of cultural conservatives (e.g., Russell Kirk), fusionists (e.g., Frank Meyer), economic libertarians (e.g., Milton Friedman, Mises, Hayek, and Wilhelm Roepke), neoconservatives (e.g., Irving Kristol), the new right, and active political conservatives such as Barry Goldwater. Overall, conservatism has "substantial correspondence" with Church teachings, especially on Communism, freedom, and the role of God, religion, and natural law. The greatest divergence is over government's role: "conservatism does not seem to see the state's full role in shaping the common good, it does not accept the full range of the state's domestic social welfare role, it does not concede to the state a sufficiently large prerogative in the economic realm, and it is not aware enough of the international obligations of states growing out of the virtue of charity."

This indictment neglects conservatism's

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rightful suspicion of government power and opposition to tyranny, especially in economics, where political decisions have proven poor substitutes for market ones. And what if the state is captured by a mistaken or even evil ideology? Better a minimal state respecting freedom, dignity, and Christian values than an activist state seeking to "shape the common good" by a vision hostile to them. Overall, Krason finds conservatism closest to the Church, with old liberalism a close second and new liberalism far behind.

"In the final analysis, the crucial reason why conservatism is closest to the Church is because it best upholds the natural law and is most supportive of religion." New liberalism is farthest from the Church "because it has become so secularized and has gone far in the direction of rejecting the natural law, especially in the area of sexual morality."

Since conservatism shares some of liberalism's core beliefs, such as "excessive" individualism and the value and possibility of progress, it shares in its deviations from Church teaching. But the main reason why both ideologies deviate, he rightly argues, is "their common origin in early modern political philosophy, and more generally in the thought which has characterized Western culture since the dawn of modernity." This new thought was "a secular one—in ways, *rampantly* secular—and one which changed radically the notion of natural law" (his italics) from something moral to something like a law of physics.

In light of *Centesimus Annus,* the Pope's 1991 economic encyclical, covered in an appendix, the ideologies retain their rankings. One might argue that given the encyclical's strong endorsement of a morally conscious free economy, conservatism's standing *vis-à-vis* Church teaching is much improved. Capitalism recognizes certain realities inherent in Creation better than any other system: scarcity, the need for productive work to sustain human life, and the self-interested aspect of human nature.

Meticulous, thorough, and impeccably scholarly, *Liberalism, Conservatism and Catholicism* is a superb reference work for Catholics seeking to navigate among political viewpoints, and for others interested in papal teachings and in how well (or poorly) those viewpoints measure up. □

Dr. Attarian is a free-lance writer in Ann Arbor, Michigan.

Civil Wrongs: What Went Wrong With Affirmative Action

by Steven Yates

ICS Press: San Francisco • 1994 • 256 pages • $22.95

Reviewed by Llewellyn H. Rockwell, Jr.

"Sensitive" is the word people use to describe political rows over civil rights, an issue that mixes economics, social policy, and race. We know what we're *supposed* to think: the "civil-rights struggle" was the most heroic political movement in American history. We are not, however, supposed to notice its catastrophic results: race relations are worse than ever, businesses are less free, labor markets are locked up, the academy is sinking into mediocrity, crime is rampant, and the central government is even more brutal in thwarting liberty and community autonomy.

Having dispensed with traditional standards of merit, civil-rights laws have created a separate class of people, whose "prosperity" is government induced, whose "merit" is a fabrication of bureaucrats, and whose "rights" always seem to come at the expense of everyone else's.

Thank goodness that none of these issues is too sensitive for Steven Yates, a courageous young philosopher influenced by Ludwig von Mises. Lucidly and forcefully, he writes of a confused and statist America, where being born into a victim group is worth more politically and economically than a good education, a strong will, and sheer talent.

Appropriately, Mr. Yates concentrates

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on a serious injustice of modern life: the central government's policy of mandatory discrimination against white males. There are only two options an employer, for example, faces when considering two applicants of different races. Hire the white and face the prospect of lawsuits, fines, and public humiliation. Hire the black and face none of that. Which will be the norm?

The macroeconomic result of this policy, defended as remedial of the sins of the past, is an inefficient use of labor and intellectual resources. It's also immoral and socially destructive, and not only in the business world. In the university, it has reached poisonous bloom.

Free speech and free inquiry are today barred on campus in a whole range of areas, and even dorm assignments are politicized. Incompetents are hired for prestigious professorships, while bright young scholars are forced into one temporary position after another. Perhaps the most serious casualties are the good scholars with real credentials, who drop out of the academy because they can no longer tolerate the injustice.

Mr. Yates gives us a useful legal and political history of affirmative action and quotas. Especially valuable is his material on campus race hatred. Whites typically view black achievement as tainted even when it isn't (for who's to know?), and white achievement calls down official discrimination. When major universities employ editors to rewrite the Ph.D. dissertations of the racially privileged, an inevitable result is increased envy against the productive.

Because of affirmative action, the academy exalts what Mr. Yates calls "antischolarship," a substructure of campus life in which affirmative-action professors teach affirmative-action students about the glories of affirmative action. For students and faculty outside the substructure, intimidation is the norm.

A graduate teaching assistant at a major university was told by his superiors in the economics department to "give every minority a B." Otherwise, even bad students could appeal and cause him endless trouble. A professor at a midwestern college discovered that some of his students had copied their term papers straight out of the encyclopedia. The academic dean told him it would be "racist" to flunk them. Most professors—being risk averse—don't have to be told. They know, and accept it without protest. But the entire process is in no one's interests, except those who would destroy all standards, the academy, and even civilization itself.

Affirmative action and quotas do not stand alone. They stem necessarily from the concept of civil rights. By forbidding actions based on certain categories of racial and sexual motivation, civil-rights legislation pretends to peer into the hearts of men. Yet even our government—the biggest, richest, most powerful in history—can't read minds. The result is that bureaucrats ferret out what Richard Epstein has called the "forbidden grounds" by counting numbers, which is where quotas come from.

Despite his heroic attack on affirmative action, Mr. Yates has yet to come around entirely to this understanding. Like the right to housing or medical care, civil rights must trample on the freedoms of association, contract, and even speech. As Michael Oakeshott has pointed out, these are what distinguish the free man from the slave. Civil rights laws even enshrine involuntary servitude, as when restaurant owners are forced to wait on people they don't want to serve.

We must seek to end not only state-mandated affirmative action but also anti-discrimination and public accommodation laws. There is no valid theoretical distinction between private property and commercial property, despite the attempt of Beltway intellectuals to manufacture one. It is all private, and private individuals ought to be able to own and control it. Steven Yates's thrilling defense of liberty can lead nowhere else. □

Mr. Rockwell is President of the Ludwig von Mises Institute in Auburn, Alabama.

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Princess Navina Visits Mandaat

by Count Nef (pseudonym for James L. Payne)

Sandpoint, Idaho: Lytton Publishing • 1994 • 55 pages • $8.95 paperback

Reviewed by Robert Batemarco

We Americans have grown accustomed to a large measure of government control over our persons and property. Such serious intrusions on our liberties as zoning laws, public schooling, and government regulation of food and drugs are so taken for granted that to question their beneficence is to risk being read out of the public debate. In such circumstances, camouflaging such doubts through fiction may be the only effective way of getting people to drop their unquestioned assumptions and get them to think the unthinkable.

James Payne's satirical *Princess Navina* series is an attempt to do this. *Princess Navina Visits Mandaat*, the second book in this series, describes a country in which progress is measured by the weight of legislation passed. Some of this excess tonnage calls for mandatory attendance at religious services, inspection of every piece of meat served in restaurants, and special permits to walk on the street. So pervasive is the need for permits in Mandaat that the title character is heard to lament, "All these permits. Permits to turn on the water, permits to turn off the water, permits to open the door, permits to close the door. Why there's even a permit to pick up coins off the floor if they should happen to fall!"

This is a work of imagination but not, unfortunately, of fantasy. The difference between Mandaat and the United States in the 1990s is of degree, not of kind. In Mandaat, an anonymous functionary justifies his regime's policies on the grounds of "how stupid and selfish human beings can be when left free to act on their own." In the United States, FDA chief David Kessler echoes, "If members of our society were empowered to make their own decisions . . . then the whole rationale for the [FDA] would cease to exist," in defending his regulatory turf. The leaders of both countries are all too eager to enact laws which, while counterproductive, make them and their subjects feel better. As Mandaat's chief apologist so bluntly puts it: "The passage of laws has almost nothing to do with making things better. The real purpose of legislation is reassurance."

In Mandaat, reassuring legislation has been passed to the point of driving virtually all activity underground. Princess Navina discovers this to be the case quite literally, as she comes into contact with Mandaat's resistance movement. Called "nibblelaries," they seek to subvert Mandaat's regulatory strait-jacket not through a futile frontal assault, but by "nibbling" at the laws until they become unenforceable.

Payne's allegorical treatment of the perils of over-regulation and the mindset behind it can be read in about a half hour. That admirable brevity, along with Diana Schupell Reid's charming illustrations, makes it suitable for children. Those lucky enough to read it or have it read to them will be instructed as well as amused. □

Dr. Batemarco, The Freeman's *book review editor, teaches economics at Marymount College, Tarrytown, New York.*

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THE FREEMAN

IDEAS ON LIBERTY

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The Freeman is the most respected and imitated journal of liberty in America. For more than 40 years it has uncompromisingly defended freedom and the free society. Each monthly issue is packed with readable information on economic matters, commentaries on the latest political follies and the loss of freedom in America, and the biographies of illustrious defenders of freedom—all written with insight, clarity, and wit.

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"The healthy state of industry and wealth is the state of absolute liberty, in which each interest is left to take care of itself. The only useful protection authority can afford them is that against fraud and violence. Taxes and restrictive measures never can be a benefit: they are at best a necessary evil; to suppose them useful to the subjects at large, is to mistake the foundation of national prosperity. . . ."

—JEAN-BAPTISTE SAY

A Treatise on Political Economy

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